MADE IN AMERICA: INCREASING JOBS THROUGH EXPORTS AND TRADE

HEARING

BEFORE THE

SUBCOMMITTEE ON COMMERCE, MANUFACTURING, AND TRADE

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CONTENTS

WITNESSES

MADE IN AMERICA: INCREASING JOBS THROUGH EXPORTS AND TRADE

WEDNESDAY, MARCH 16, 2011

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COMMERCE, MANUFACTURING, AND TRADE,
COMMITTEE ON ENERGY AND COMMERCE,
Washington, DC.

The subcommittee met, pursuant to call, at 10:10 a.m., in room 2322 of the Rayburn House Office Building, Hon. Mary Bono Mack (chairman of the subcommittee) presiding.

Members present: Representatives Bono Mack, Blackburn, Stearns, Bass, Harper, Lance, Cassidy, Guthrie, Olson, McKinley, Pompeo, Kinzinger, Barton, Butterfield, Gonzalez, Dingell, and Towns.

Staff present: Paul Cancienne, Policy Coordinator, Commerce, Manufacturing, and Trade; Robert Frisby, Detailee, Commerce, Manufacturing, and Trade; Debbee Keller, Press Secretary; Brian McCullough, Senior Professional Staff Member, Commerce, Manufacturing, and Trade; Carly McWilliams, Legislative Clerk; Gib Mullan, Chief Counsel, Commerce, Manufacturing, and Trade; Shannon Weinberg, Counsel, Commerce, Manufacturing, and Trade; Andrew Powalenty; Michelle Ash, Democratic Chief Counsel; and Will Wallace, Democratic Policy Analyst.

OPENING STATEMENT OF HON. MARY BONO MACK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mrs. BONO MACK. The subcommittee will come to order.

This is the second in our series of hearings aimed at fostering job creation across the United States and to make "Made in America" matter again.

Today, with Japan reeling from a catastrophic earthquake and tsunami and violent turmoil in the Middle East spreading, our Nation's trade outlook is more clouded than ever. As chairman of the subcommittee which has jurisdiction over trade issues, I am convinced that we can create tens of thousands of desperately needed jobs in our Nation by expanding U.S. exports through our free trade agreements. The chair now recognizes herself for an opening statement.

In 2007, Apple introduced its very first iPhone and Congress finally approved the United States-Peru Trade Promotion Agreement after years of give and take. Since then, there have been three new generations of iPhones, two iPads and several new nano iPods but not a single free trade agreement signed into law. Not one. So while American ingenuity zips along at millions of bits per second, America's trade policies are stuck in the fax age, and it is time for an upgrade. Our subcommittee has a unique opportunity to roll out a new model for the future and to demonstrate leadership on this critically important issue. But time is running out.

America's $46 billion trade deficit in January grew at the fastest rate in 18 years. While Washington rolls its eyes and wrings its hands, our competitors in Europe are busy signing on the dotted line and moving quickly into promising new markets. We simply cannot wait on the sidelines any longer, allowing ourselves to be benched by partisan politics. Today, we will hear what the Administration plans to do about the trade imbalance from Francisco J. Sanchez, Under Secretary of Commerce for International Trade.

Let me be clear: long-stalled trade promotion agreements with South Korea, Colombia and Panama should move forward immediately—all of them. Years of lost opportunities have only resulted in thousands of lost jobs all across the county. Let us make "Made in America" matter again by actually increasing jobs through expanded exports and trade. If you doubt that we can do it, then just consider the iPhone again. Today, Apple is the second most valuable company in the world, and yet at one point it was 90 days from bankruptcy court. Apple didn't turn around its fortunes by being timid and parochial. Instead the company was bold and innovative. Apple sold shares to rival Microsoft and agreed to make Internet Explorer its default browser. That is the kind of decisive, forward-looking thinking we need today when it comes to our trade policies.

President Obama has vowed to double exports in 5 years, but that is simply not going to happen if we continue to allow free trade agreements to be held hostage by organized labor and to languish in limbo. It is disingenuous for the Administration to say: "Let us work together to create new jobs, but not if it means passing all three trade agreements together." That is the kind of thinking that leads to a $46 billion U.S. trade deficit in January, and that is the kind of thinking that threatens the future prosperity of our Nation.

To date, the Administration has not offered any detailed plans for opening up trade with Colombia and Panama. We have gotten plenty of promises, but no plans. It is time to quit playing politics with our trade policies. Tens of thousands of new jobs hang in the balance, as well as tens of billions of dollars in new exports.

Today, American businesses are genuinely concerned and, I believe, rightfully so, that if the proposed United States-Korea agreement is finally approved this year by itself, then separate trade deals with Colombia and Panama will be quietly forgotten, as a concession to organized labor. If that is not the case, Secretary Sanchez, then this is the Administration's golden opportunity to set the record straight. Please tell us how the White House plans to deal with all three free-trade agreements. Today, you have a chance to make some news, and to give American businesses a reason to cheer. I have my fingers crossed, Mr. Secretary, but at the very least, let us make sure our signals are not crossed. Exactly what is the Administration's plan and what is the timetable for accomplishing it?

Recently, Secretary of State Clinton said, and I am quoting now, "Our goal is to have all three pending agreements—Korea, Panama and Colombia—with their outstanding issues addressed and approved by Congress this year." And, yet, with the next breath, an Administration official warns that trying to pass all three free trade agreements together, and quoting again, "is putting all three agreements at risk." Perhaps I lost the fax, Mr. Secretary, but how do you reconcile those positions?

It is my sincere hope that we can put politics aside, work out our legitimate differences and approve all three trade agreements this year. We simply cannot sit on the sidelines any longer while other nations gain footholds in promising, new global markets. Too much is at stake for us to fail.

[The prepared statement of Mrs. Bono Mack follows:]

PREPARED STATEMENT OF HON. MARY BONO MACK

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Mrs. BONO MACK. I yield back my time and I would like to recognize the gentleman from North Carolina, the ranking member of our subcommittee, Mr. Butterfield, for 5 minutes.

OPENING STATEMENT OF HON. G.K. BUTTERFIELD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. BUTTERFIELD. Let me thank you, Chairman Bono Mack, for convening this very important hearing. This is a timely conversation and I am glad that we are finally having it.

A major part of our economic recovery is indeed increased exports. The President seems to get it. He clearly knows that increasing exports is key to the American economy returning to the prerecession levels. To that end, during the State of the Union the President announced the goal of doubling U.S. exports by 2014, a goal that requires exports to grow to $3.14 trillion at the end of that period. In March 2010, the President issued an Executive Order officially creating the Export Promotion Cabinet, which oversees the coordination and implementation of the National Export Initiative. We refer to it as NEI. The NEI brings together secretaries from seven federal departments as well as the heads of other federal entities. As Commerce Secretary Locke said recently, "The NEI represents the first time the United States will have a government-wide export promotion strategy with focused attention from the President and his Cabinet."

Other nations have employed similar strategic initiatives to their benefit, and it is absolutely essential that the United States embrace the NEI by working towards its goal of improving advocacy and trade promotion, increasing access to export financing, removing trade barriers, enforcing trade rules and adopting policies that promote sustainable and balanced growth.

We have great potential to export more. With the world's population at nearly 7 billion people, 95 percent of those live outside of our country. The products they purchase and the equipment they use must come from somewhere else. There is no reason it shouldn't be from the United States. Recent data indicates that foreign markets are buying more and more U.S. goods. With only a year under NEI's belt, exports have grown 17 percent, let me repeat that, 17 percent, but more must be done. We must not focus solely on convincing foreign entities to purchase goods that we already make. Instead, we must also encourage American businesses to innovate and develop cutting-edge products that will be attractive to fast-growing foreign markets. We must make more in America. This is beginning to happen in areas like medical technology and green technology and agriculture, but innovation is just one part of the effort to increase exports. Exposure to foreign markets is another equally important piece to this puzzle.

The ITA has been moving at a blazing pace to participate in trade and reverse trade missions to put American manufacturers in front of foreign buyers. Their efforts have paid off with ITA executing 35 trade missions in 31 countries involving some 400 U.S. companies within the last year, resulting in an anticipated $2 billion in increased exports. It is my hope that small- and medium-sized enterprises across the United States, those same businesses that are the focus of NEI, will avail themselves of the tremendous opportunities to begin or increase exports to foreign markets. This could yield immeasurable benefits to the U.S. economy and could mean tens of thousands of new good-paying jobs, dramatically transforming struggling communities like Rocky Mount, North Carolina, located in my Congressional district, where the unemployment rate is 12 percent. Just a small increase in exports could yield tremendous benefits for the American people and for industry across the country.

I want to thank the witnesses for being here today, the Under Secretary and the other witnesses. I read your testimonies last evening. I look forward to working with American businesses and my colleagues in a collaborative effort to increase American exports.

Thank you, and before I yield back, I want to read this note, Madam Chairman. Just go ahead and yield back? All right. I yield back. I saw the chairman emeritus down at the end of the panel. I wanted to see if he needed time, but they are going to work that out later. Thank you. I yield back.

Mrs. BONO MACK. I thank the gentleman, and Chairman Upton yielded his 5 minutes for an opening statement to me in accordance with committee rules. As his designee, I now recognize Ms. Blackburn, the vice chairman of the subcommittee, for 2 minutes.

Mrs. BLACKBURN. Thank you, Madam Chairman. Welcome to our witnesses.

Earlier this year in his State of the Union, our President laid out an encouraging goal of doubling exports in the next 3 years. We all took note of that, and now all we need it leadership so that we can achieve that objective. It is important to my State of Tennessee. Leadership is needed by both the President and by both parties in Congress to finally step up and do what is best for the economy.

That being said, without strong intellectual property enforcement tools in place, no free trade or exporting policy will work. In my home State of Tennessee, there are countless companies, both big and small, that rely heavily on strong U.S. export policies for their livelihoods, among them Tom James Incorporated, Bridgestone, Swiftwick Socks, Cargill Cotton, Nucor Steel, International Paper, Eastman Chemicals, FedEx, Right Thought Pens, and now Volkswagen is on the way. Those are just a few of the companies that are saying get this intellectual property policy right. If IP cannot be protected, innovation and commerce is going to slow. If we are to continue as the world's leading innovator, if we are to reclaim the lead in green innovation, if we are going to truly spur small business growth, we must protect intellectual property with the same vigor as physical property. We need your leadership to do so. We need the leadership of this committee, and Madam Chairman, I yield back.

Mrs. BONO MACK. I thank the gentlelady and would like to recognize the gentleman from Texas, Mr. Barton, chairman emeritus of this committee, for 2 minutes.

Mr. BARTON. Thank you. If we are holding a hearing in this subcommittee, there must be a Cabinet Secretary testifying in another subcommittee. Last week, I believe we had the Secretary of Health and Human Services and you had a hearing, so this week we have the Secretary of Energy, the chairman of the Nuclear Regulatory Commission, and we have a hearing here. So it is no disrespect to you, Mr. Secretary, that given what has happened in Japan, a lot of our members are going to be downstairs with the NRC chairman and the Energy Secretary, but we are glad you are here.

We are all concerned about jobs and we are all concerned about job creation. I think both sides of the aisle agree with that. Unfortunately, my friends on the Minority seem to be able to only create jobs in the government sector, and those on my side would rather we create as many jobs as possible in the private sector. Hopefully we can reach agreement that that is the way to go in this hearing.

There are several things that we need to do. Number one, we need to enforce our existing free trade agreements. That is easier said than done, obviously. And number two, we need to pass new trade agreements, and I think you are very well aware that the Senate has yet to take up several of those agreements but hopefully in the next month or so they will. I would like to see us pass a free trade agreement with Korea, with Colombia and also with Panama.

And with that, Madam Chairwoman, I yield back, but welcome, Mr. Secretary.

Mrs. BONO MACK. I would like to recognize the gentleman from Illinois, Mr. Kinzinger, for 2 minutes.

Mr. KINZINGER. Thank you, Madam Chairman, for the time and for holding this hearing, and thank you, sir, for coming in.

I want to say thank you to the Administration for the support on the Korean free trade agreement. I think that is going to be very important. In my district, the free trade agreement itself will support $75 million in exports and nearly 300 jobs. More American goods in foreign markets means more American jobs back home, and removing export tariffs on agriculture, electronics and manufactured goods makes American products more competitive in the Korean marketplace and fuels both nations' economies. History has taught us that robust trade creates jobs and strengthens the economy. Our Nation cannot afford at this critical time to pass on opportunities to expand free trade.

I am very concerned with this Administration's failure to lead on two remaining free trade agreements with our allies and partners to the south, Colombia and Panama. These trade agreements serve as important milestones for the bilateral relationships with these countries and failure to take action puts American exports and jobs at risk. The U.S. International Trade Commission believes a Colombian agreement alone could increase U.S. exports by $1 billion. In Panama, companies like Caterpillar build and deliver the equipment that is developing the nation's infrastructure but do so under onerous rules and fees. Free trade agreements lower costs and benefit us all.

Although I am pleased with the Administration's actions on Korea, I do not believe we can allow a vote on the Korean free trade agreement without taking action on Colombia and Panama. We should not give the Administration a pass on future agreements with the passage of one agreement.

Thank you, Madam Chairman, and I yield back.

Mrs. BONO MACK. The gentleman yields back, and the chair recognizes the ranking member, Mr. Butterfield.

Mr. BUTTERFIELD. Thank you, Madam Chairman. I have no further speakers except to say that the ranking member of the full committee, Mr. Waxman, was here earlier. He wanted to be here for this hearing and he especially wanted to welcome his constituent, Mr. Crouse, from Capstone Turbine, but Mr. Waxman had to leave for another hearing, and I ask unanimous consent that his statement, his opening statement that he would have given had he been here, be included in the record.

Mrs. BONO MACK. Without objection.

Mr. BUTTERFIELD. Thank you. I yield back.

[The prepared statement of Mr. Waxman follows:]

PREPARED STATEMENT OF HON. HENRY A. WAXMAN

Thank you Chairman Bono Mack and Ranking Member Butterfield for today's hearing.

In a global economy, exports are a national imperative. They are a key indicator of our competitiveness, an important component of deficit reduction, and a gauge of our future economic health. I welcome President Obama's goal of doubling U.S. exports within 5 years. It is a target that is not only bold, but attainable if we stay focused on the task.

It is notable, that even as our economy shrank in 2010 in the wake of the Wall Street collapse, U.S. exports grew by 17%—the largest year to year increase in history. Without a doubt, exports will continue to be an important part of our economic recovery. American companies will succeed not only by innovating how they make products, but also by expanding where they sell them.

Ensuring that our companies have an opportunity to succeed on a level playing field is a responsibility that only government can shoulder. Too often, American exports are undermined by unfair trade practices, and even blatant criminal acts such as intellectual property piracy.

IP sensitive industries are among our most internationally competitive. Today, nearly half of the motion picture industry's revenues are generated overseas. The software industry estimates that sixty percent of its sales originate outside the United States. Our success in eliminating trade barriers in this arena and stepping up international enforcement efforts against piracy will be essential for achieving the goal of doubling exports.

But the question remains—once we reach the goal of doubling exports, will it make a dent in our trade deficit. Today, I worry that the answer is no. Because today, over 50% of our trade deficit can be attributed to our dependence on foreign oil.

As unrest unfolds in the Middle East and fuel prices once again rise here at home, the moral, economic, and national security consequences of our dependence on fossil fuels are as clear as ever. Although we do not buy from Iran or Libya, our appetite for oil bolsters the international crude prices that are subsidizing these dangerous regimes.

We can do better. We need to do better. Building stronger clean energy and energy efficiency markets here at home and abroad is critical. It is not only critical for reducing the staggering $366 billion worth of foreign oil we import. It is critical for advancing U.S. leadership in the emerging and lucrative field of clean-tech.

This morning we will have the opportunity to hear from Capstone Turbine Corporation. The company is a leading manufacturer of microturbines, or localized generators that boost efficient energy usage with cost-savings, energy-savings, and overall emissions reductions. More than 70% of the company's products are manufactured for export and 100% of its products are made in America. And, I am proud to say, Capstone is headquartered in the 30th Congressional District of California, which I represent.

Small- to medium-size firms like Capstone are a cornerstone of the President's National Export Initiative.

I look forward to hearing from all of our witness about what it will take to make the President's vision a reality.

Mrs. BONO MACK. And we did see Mr. Waxman pop in briefly so I am sorry he had to leave but as Chairman Barton said, there are other things happening as well.

But we do have two panels before us today. Each of the witnesses has prepared an opening statement that will be placed into the record. Each of you will have 5 minutes to summarize that statement in your remarks.

On our first panel, we are fortunate to have the Hon. Francisco J. Sanchez, Under Secretary of Commerce for International Trade. We appreciate your being here very much today, Mr. Secretary, and would recognize you for 5 minutes.

STATEMENT OF FRANCISCO J. SANCHEZ, UNDER SECRETARY OF COMMERCE FOR INTERNATIONAL TRADE

Mr. SANCHEZ. Thank you. Good morning. Chairwoman Bono Mack, Ranking Member Butterfield and members of the subcommittee, thank you for giving me the opportunity to speak to you today.

In his State of the Union address, President Obama told Americans that the future is ours to win. By understanding how the world has changed, we can create the environment that can expand the American economy. Great opportunities lie in the vast global market. Today, 95 percent of the world's customers live outside our borders. The International Monetary Fund forecasts that 83 percent of the world's economic growth during the next 5 years will happen outside the United States.

The nations of the world are giving rise to a new global middle class. They are a new marketplace for American exports, and one example of this is travel and tourism. Data released just this morning reveals a record-breaking 60 million international visitors in the United States, shattering the previous record set in 2000. These travelers spent more than $134 billion. That is a 12 percent increase over 2009, generating a 50 percent increase for the travel trade surplus of $32 billion. Travel and tourism is no small industry. These exports generate $1.3 trillion for the U.S. economy, supporting 7.8 million jobs.

Through the National Export Initiative and its goal of doubling exports by 2015, we hope to support millions of jobs right here at home. U.S. exports of goods and services in 2010 representing $1.83 trillion increased nearly 17 percent over 2009. That is the largest year-to-year percent increase in more than 20 years.

As we search for ways to create jobs for American workers, increasing our Nation's exports must be a important tool in our toolbox. On average, manufacturing jobs supported by exporting pays up to 18 percent more than non-export-supported jobs.

The NEI is the United States' first Presidential-led government-wide export promotion strategy and it is good for American workers and companies alike. The NEI focuses on five areas: improving trade advocacy and export promotion, increasing access to credit, especially for small- and medium-sized businesses, removing trade barriers abroad, robustly enforcing our trade laws and pursuing policies to promote strong, sustainable and balanced growth.

Congress created the International Trade Administration to promote American companies and workers abroad. During 2010, ITA assisted more than 5,500 U.S. companies. Eighty-five percent of these were small- and medium-sized companies. ITA coordinated an unprecedented 35 trade missions to 31 countries with nearly 400 companies participating. We recruited 13,000 foreign buyers to major U.S. trade shows and connected them with U.S. companies, resulting in approximately $770 million in sales. In 2010, ITA also assisted U.S. companies competing for foreign government procurement contracts, winning projects valued at $18.7 billion in U.S. export content, and that supported an estimated 101,000 jobs. We successfully resolved 82 trade barriers in 45 countries, helping to ensure U.S. companies better access to overseas markets.

The Obama Administration is committed to aggressively enforcing our trade laws. In 2010, we had approximately 300 anti-dumping and countervailing duty orders in place covering more than 120 products from 40 countries. We strive to make ITA the one point of contact in the Federal Government for companies who want to succeed abroad. The Administration is continuing our hard work to address outstanding concerns with the pending trade agreements and to improve those agreements and get them to Congress as they become ready.

As this subcommittee is aware and many of you have already mentioned, the United States-Korea trade agreement is ready for consideration. President Obama is eager to see this agreement ratified as I know many of you are, and he requests that Congress approve this agreement.

With the same engagement and bipartisan cooperation as we have had on the Korea agreement, we will continue to address outstanding concerns relating to the Panama and Colombia agreements. Our goal is to have all three of these agreements with their outstanding issues addressed approved by Congress. We will not be left behind as others secure greater market share at the expense of American exports. To compete, we must access the world's fastest-growing markets and we must do so on a playing field that is both level and reflects our values as Americans. The NEI is the Obama Administration's commitment to help U.S. companies compete and win in an increasingly competitive global marketplace.

I thank you again for the opportunity to come before you, and I look forward to answering your questions. Thank you.

[The prepared statement of Mr. Sanchez follows:]

Testimony of the
Under Secretary of Commerce for International Trade
Francisco Sánchez
Before the
House Energy and Commerce
Subcommittee on Commerce, Manufacturing and Trade
March 16, 2011

Good morning, Chairwoman Bono Mack, Ranking Member Butterfield and members of this Subcommittee. Thank you for the opportunity to speak with you today.

In his State of the Union address, President Obama told Americans that the future is ours to win – if we rise to the challenge. To compete in the industries and markets of the future, America must out-innovate, out-educate and out-build the rest of the world. In doing so, we can create the jobs that Americans need. By understanding how the world has changed, we can create the environment that can expand the American economy.

Great opportunities lie in the vast global market, which will grow in size and scope in the years ahead. Today, 95 percent of the world's customers live outside our borders. The International Monetary Fund forecasts that 83 percent of world economic growth over the next five years will happen outside of the United States. If we want to win the future, we have to go where the customers are. Most of the nations of the world expect to increase their standards of living, and they are giving rise to a new global middle class of consumers that can be the new marketplace for American goods and services.

Under Secretary Locke's leadership, we at the Commerce Department have gone into overdrive to implement the National Export Initiative (NEI) that President Obama has outlined. The President has repeatedly emphasized the increasing role that exports must play in our economy. Through the NEI, and its goal of doubling U.S. exports by 2015, we hope to support millions of jobs here at home. Already, U.S. companies are taking advantage of the international marketplace at historic levels.

U.S. exports of goods and services in 2010 increased nearly 17 percent over 2009 -- the largest year-to-year percent increase in more than 20 years. The $1.83 trillion total in exports of U.S. goods and services represents the second highest annual total on record, only slightly off the record high of 2008. While this reflects great progress in one year, we have to think bigger and continue to adjust to the demands of the global marketplace.

Rapidly growing economies provide potentially new markets for U.S. companies. Over the past decade our exports to China and India have more than quadrupled, and in Vietnam they've increased eightfold.

As we search for ways to create jobs for American workers, increasing our nation's exports must be an important tool in our toolbox. On average, manufacturing jobs supported by exporting pay up to 18 percent more than other jobs in the economy.

That is why the National Export Initiative, which is the United States' first Presidential-led, government-wide export promotion strategy, is a significant step in the right direction for our American workers and companies.

The NEI is focused on five priority areas: (1) improving trade advocacy and export promotion efforts; (2) increasing access to credit, especially for small and midsize businesses; (3) removing barriers to the sale of U.S. goods and services abroad; (4) robustly enforcing trade laws; and (5) pursuing policies at the global level to promote strong, sustainable, and balanced growth.

The International Trade Administration was formed to promote foreign markets for American companies and workers. U.S. companies, particularly small-and-medium sized enterprises, often face hurdles when trying to close an export sale, including lack of readily available information, challenges obtaining export financing, unfair trade practices from foreign companies, and obstacles from foreign governments. That's where we can and should help.

The NEI is the Obama Administration's commitment to serve as a full partner with U.S. businesses to promote American-made goods and services worldwide, within global trading rules. At the International Trade Administration, we are doing our part to keep America globally competitive and implement President Obama's National Export Initiative.

And our work is producing results.

During 2010, the International Trade Administration assisted over 5,500 U.S. companies, 85% of which were small or midsize businesses.

For example, ITA assisted the National Raisin Company of California in entering the European market. Our officers in several European cities developed a market entry strategy for the company that included meetings with contacts in the identified countries, trade fair participation, and extensive market intelligence. As a result of our assistance, the National Raisin Company boasts exports exceeding $250,000 to Europe.

We also assisted Pantego Overhead Doors, a family-owned garage door manufacturer of North Carolina, verify a potential buyer from the United Arab Emirates. We provided information on exporting basics, covering topics such as payment methods and how to properly fill out export documentation. As a result, Pantego completed a sale worth $68,000.

The International Trade Administration coordinated an unprecedented 35 trade missions to 31 different countries with nearly 400 companies participating.

We recruited nearly 13,000 foreign buyers to visit major U.S. trade shows here in the United States and directly connected with U.S. companies, resulting in approximately $770 million in export successes.

In 2010, the International Trade Administration also assisted U.S. companies competing for foreign government procurement contracts and other U.S. export opportunities, winning projects valued at $18.7 billion in U.S. export content and supporting an estimated 101,000 jobs.

We successfully resolved some 82 trade barriers in 45 countries affecting a broad range of industries, helping to ensure U.S. companies better access overseas.

The Obama administration is committed to aggressively enforcing our trade laws to ensure a level playing field for U.S. companies and their workers, thereby increasing their competitiveness and giving them the opportunity to seek additional global markets. In 2010 we had approximately 300 antidumping and countervailing duty orders in place, covering over 120 products from 40 countries.

Through the Trade Promotion Coordinating Committee, chaired by Secretary Locke, the International Trade Administration has strengthened interagency coordination and communication to better assist U.S. companies seeking export assistance. The goal is simple: a U.S. company, large or small, seeking advice and support on exporting overseas, should be able to reach out to one point of contact in the federal government and be seamlessly linked to comprehensive information on market research, upcoming trade events, addressing trade barriers, and how to access trade financing. To achieve this goal, we have focused on improving the one-stop shop website for U.S. exporters www.export.gov and cross-training federal agencies as well as state and local partners.

In 2011, we are building on this effort by working more closely with state and local governments to help make export assistance a critical building block of our nation's economic recovery at every level.

The Administration is continuing our hard work to address outstanding concerns with the pending trade agreements and to move those agreements to Congress as they become ready. As this subcommittee is aware, the U.S.-Korea trade agreement (KORUS) is ready for consideration. KORUS has already won widespread support from business, labor, agriculture, and services groups across the country. It is time to ensure the promise of KORUS is fully realized – more than $10 billion in increased exports of goods alone, supporting more than 70,000 American jobs. President Obama is eager to see this agreement ratified, as are many of you, and requests that Congress approve this agreement.

With the same engagement and bipartisan cooperation as on the Korea agreement, we will continue to address outstanding concerns relating to the Panama and Colombia agreements. Our goal is to have all three agreements, with their outstanding issues addressed, approved by Congress. We will not be left behind as others secure greater market share at the expense of American exporters. To compete, we must access the world's fastest growing markets on a playing field that is both level and reflects our values as Americans.

The National Export Initiative is the Obama Administration's commitment to help U.S. companies compete and win in the increasingly competitive global marketplace. I look forward to our dialogue today and to future discussions. By working together, we can use common sense and find common ground on trade in order to create jobs and new opportunities for American companies and workers. I would be happy to answer any questions.

Mrs. BONO MACK. Thank you, Mr. Secretary. The chair recognizes herself for 5 minutes for questions.

As you mentioned, the President's NEI is designed to double U.S. exports by 2014. First of all, a clarification. Is that 2014 or 2015?

Mr. SANCHEZ. It is 2015.

Mrs. BONO MACK. The President did say in his State of the Union 2014.

Mr. SANCHEZ. Well, then the President is right.

Mrs. BONO MACK. Good answer. But isn't that going to be very difficult to accomplish unless we enter into new trade agreements with countries like Korea, Colombia and Panama?

Mr. SANCHEZ. There is no question that one of the most important things we can do to achieve the doubling of exports is reducing barriers, and trade agreements play an important role in that. In fact, we have 17 trade agreements in place now. With those 17 countries, we actually have a trade surplus.

Mrs. BONO MACK. But if we focus on the three in question, I think that a number of members raised those three specifically, is the Administration committed to getting all three trade agreements completed this year?

Mr. SANCHEZ. They absolutely are completed. They are absolutely committed to getting all the issues resolved and getting them to Congress as soon as possible.

Mrs. BONO MACK. What is the timetable?

Mr. SANCHEZ. Well, let me just say what we have done to achieve that. Obviously, Korea is ready to come before you. With Colombia, we sent a team to Colombia a few weeks ago. There is a team now from Colombia meeting with folks at USTR. We are working very, very hard to work through the issues that we believe still need to be resolved with regard to their labor code and violence toward labor organizers, so I am very confident just from the activity that you have seen over the last 8 weeks that we will move forward on Colombia.

Mrs. BONO MACK. Thank you. Switching gears for a second, Mr. Secretary, U.S. creativity without a doubt is one of our Nation's greatest competitiveness advantages but we have ignored it for too long. Around the world, especially in places like Russia, online theft is undermining that competitiveness. Can you tell me what the Administration is doing to ensure that the government of Russia effectively responds to this threat before it joins the WTO?

Mr. SANCHEZ. Well, you are absolutely right. Intellectual property rights protections is one of the most important trade barriers that affect American competitiveness, and we work on that issue across the world, and in Russia we work closely with the business community, and Russia recently passed a law that upgrades their enforcement of piracy and counterfeit products so we——

Mrs. BONO MACK. Is piracy up or down?

Mr. SANCHEZ. I am sorry?

Mrs. BONO MACK. Is piracy, is the rate of it up or down?

Mr. SANCHEZ. I don't know the exact rate of piracy with regard to Russia. What I can tell you is, though, with our encouragement and working closely with the business community, Russia has acted to expand and upgrade its enforcement. Now, the proof is in the pudding, and this happened in late November so it is too early to tell, but I can tell you that we are closely monitoring what is going on in Russia. We are working very closely with the business community, and if we don't see a problem, we will be sure to continuously raise this issue because it is very important to our competitiveness.

Mrs. BONO MACK. And also, a number of members on this committee, specifically Ms. Blackburn and myself, are very interested and very keenly aware and we will be watching. We will hold Russia's as well as China's feet to the fire as far as piracy goes.

But finally, I have three yes or no questions for you, a simple yes or no, good news. Is the free trade agreement with Colombia in trouble because of opposition from labor?

Mr. SANCHEZ. No.

Mrs. BONO MACK. What about Panama?

Mr. SANCHEZ. No.

Mrs. BONO MACK. Will the agreements again get done this year?

Mr. SANCHEZ. I am confident we will resolve these issues and get them to Congress.

Mrs. BONO MACK. Yes or no.

Mr. SANCHEZ. The issues will be resolved this year.

Mrs. BONO MACK. Thank you, and I yield back my time and would recognize the ranking member for 5 minutes.

Mr. BUTTERFIELD. Thank you, Madam Chairman.

Mr. Under Secretary, the National Export Initiative lays out what we call a bold goal to double exports in 5 short years. It outlines priorities and strategies for streamlining U.S. government export promotion activities. That is a promising set of ideas. As chairman of the Trade Promotion Coordinating Committee, the Department has Commerce has to coordinate approximately 20 separate agencies. Is that correct?

Mr. SANCHEZ. Yes, sir.

Mr. BUTTERFIELD. In export promotion ranging from DOE to the U.S. Trade Representative to the Department of Agriculture, and instead of tackling the problem, the NEI creates another layer called the Export Promotion Cabinet. Mr. Secretary, in approximately 90 days the President intends to recommend how we address some of these redundancies. He has promised to do that. He should be commended. Previous Administrations only have asked for generic reorganization authority but refuse to explain how such authority might be used. So far, it sounds as if the President will recommend specifics, and trade programs are a good place to start. Would you speak to that briefly, if you would, please?

Mr. SANCHEZ. Yes, Congressman. Let me first say that the President's Export Promotion Cabinet does not really add another layer of bureaucracy. In fact, it is requiring cabinets to pay attention to the importance of export promotion. So for many years the Secretary of Commerce and Secretary of State were the primary Cabinet members who when they went abroad would do commercial diplomacy. Under this Export Promotion Cabinet, any Cabinet member that goes abroad is also tasked with commercial diplomacy. In addition to this, Secretary of State Clinton has directed her ambassadors and said that your performance will be measured in part y the degree to which you do commercial diplomacy. So it is more than anything putting emphasis on the importance of this.

Now, specific to the reorganization, as President Obama said, we can always do better and it is his goal to review how we do export promotion. As you pointed out, there are many agencies that have some role to play in export promotion and it is his goal to take a fresh look at that and see how we can best do that. Now, they are just now in the process of gathering information, interviewing both folks within the government as well as in the private sector that they serve, and my understanding is that they will have a recommendation to the President in about 90 days but it is still in the process of being formulated.

Mr. BUTTERFIELD. Thank you. Some people have suggested that in order to increase exports, the United States should focus on exporting more of the same goods and the same services that it already exports or more goods and services that U.S. manufacturers are good at producing right now. That probably sounds reasonable, but I am concerned that if that is all we do, we may be forgetting the most basic tenet of economics, that is, supply and demand. So Mr. Under Secretary, can you tell me what ITA is doing to ensure that U.S. manufacturers know what goods and services other countries really want? For example, does ITA regularly survey the domestic and import markets of other countries, and if so, how do we go about this?

Mr. SANCHEZ. Thank you for the question. We are doing rigorous analysis both on the markets that offer the best opportunity for us, and that is a combination of emerging markets—China, Brazil, India—next-tier markets like Vietnam, Indonesia, Turkey, Colombia, Peru, but also focusing on mature markets, Canada and Mexico, for example. Forty-two percent of our exports go to countries within the Western hemisphere, so we are doing rigorous market analysis and then we are superimposing on that sector analysis within each of those markets to see where we get our best bang for the buck, and I would say as the chairwoman pointed out in her opening statement, it isn't just what we do best but it is the innovation that we create. Apple is a great example of innovation and practice and the very positive impact it can have on our economy, so we are focusing on those sectors that can have the highest impact in those markets where we see high growth and high opportunity.

Mr. BUTTERFIELD. All right. I have another question but maybe the next round. Thank you. I yield back.

Mrs. BONO MACK. Under the committee rules, the chair will now recognize Mr. Pompeo of Kansas for 5 minutes.

Mr. POMPEO. Thank you, Madam Chairman, and good morning, Secretary Sanchez.

Mr. SANCHEZ. Good morning.

Mr. POMPEO. You talked, when you were talking about the Colombia agreement as labor being the last sticking point. Is that correct?

Mr. SANCHEZ. Well, the issue was certain provisions in their labor code as well as concerns about violence toward labor organizers and in particular impunity toward those who commit acts of violence.

Mr. POMPEO. And would that be the same for the Panama agreement?

Mr. SANCHEZ. The Panama agreement, I think one of the issues remaining has to do with their labor code. It is an issue that we are working on closely with the Panamanian government and we don't see any big problem. We don't foresee any challenges in moving that forward.

Mr. POMPEO. We had a chance to talk just briefly before the hearing started this morning, and you talked about being an evangelist for trade.

Mr. SANCHEZ. Yes.

Mr. POMPEO. Kansas 4th Congressional district relies on enormous trade exports. We build airplanes and airplane components in south central Kansas and we export a lot of agricultural items as well. When you are out evangelizing, do you talk to organized labor about how important trade agreements are to them? I know in our district that the more trade we have—our aircraft manufacturing plants have the IAM as their primary union and we have lots of union folks that are great folks in the 4th district. These trade agreements are critical to them. I hope that you are out there talking to them about that. Can you tell me what you tell them about the importance of trade?

Mr. SANCHEZ. Yes. I have reached out to labor and we do meet, and I talk about the impact of the existing agreements. As I mentioned earlier, we have 17 current agreements, and in the aggregate with those 17 agreements, we have a goods surplus, a significant surplus, and so overall they have been good. Now, I acknowledge that in certain sectors and in certain communities it isn't equally distributed and some of them may be hurt and so it is important that we support those communities when those things happen. But overall for our economy, trade agreements have a positive impact. And the other thing I tell them is that again as the chairwoman pointed out in her statement is that other countries are not waiting for us to sign agreements. Agreements are being signed by the EU, by South Korea, by other countries in Southeast Asia, by countries in South America, and so if we don't move, we get left behind, and that is not good for the American economy, not good for American companies and certainly not good for American workers.

Mr. POMPEO. I appreciate that. I am glad to hear that from this Administration. I think that is an important message. I know, I hear from our agriculture folks already about the delay in Colombia impacting their ability to move crops into a market that they think they can be incredibly competitive in.

I guess my last comment is, you had mentioned a series 80, I think it was, in your statement, trade barriers that you had knocked down. Can you give me a couple of concrete examples in the last 12 months, places and particular barriers that you all took on and were successful in helping us increase exports?

Mr. SANCHEZ. I don't have a specific one in mind but I can give you kind of an illustration. These are initiated by a company who is trying to get into a particular market and there might be a regulation that is overly burdensome, goes beyond just responding to the public benefits that they are trying to create with the regulation and creates a barrier, so we will work with that country, with that trading partner to put a spotlight on that and reduce it. We have done this in 45 different countries including countries like China, Brazil, Turkey and India. I will be happy to get more specific ones to you in writing after the hearing.

Mr. POMPEO. I would appreciate that. We have got some issues with export controls as well. I know that is not directly tied to what you do, but I think you may be heading out my way before long and I would love to get a chance to spend a few minutes talking to you about that.

Mr. SANCHEZ. I will be well prepared with examples before I go out to see you.

Mr. POMPEO. Thank you very much, Mr. Sanchez.

Mr. SANCHEZ. Thank you.

Mrs. BONO MACK. Thank you. The chair would recognize Mr. Gonzalez for 5 minutes.

Mr. GONZALEZ. Thank you very much, Madam Chair, and Mr. Secretary, welcome. I know that many of us supported your appointment, nomination and confirmation, so it is great to see you here.

Mr. SANCHEZ. Thank you.

Mr. GONZALEZ. Nothing is an easy road in Washington.

Mr. BUTTERFIELD. Will the gentleman yield?

Mr. GONZALEZ. Of course.

Mr. BUTTERFIELD. When I first met the Under Secretary, the first word that came out of his mouth was "Charlie Gonzalez." I yield back.

Mr. GONZALEZ. And the conversation continued regardless.

Anyway, Mr. Secretary, well, first of all, I will get the parts and stuff out of the way because I know that my colleague from Texas, Mr. Barton, alluded to the creation of private sector jobs and it is not all created by the government. I will say this about the present Administration. In the past month, I think about 35,000-plus government jobs were lost and 200,000-plus private sector jobs were created. I will say this, and I think the record will bear me out, that this Administration's record as far as creating private sector jobs far exceeds that of the years 2000 to 2008, but I must say that beating the number zero of net job creation between the years 2000 and 2008 shouldn't be all that hard to do, and we do have great challenges and I am hoping that we will get past all this and figure out how we are going to get out of this tremendous recession that we still find ourselves in.

In a minute we are going to have the second panel, Mr. Secretary, and a couple of those witnesses, maybe three—of course, we will have the chamber and we will have think tank but we are going to have businesspeople and they are going to obviously touch on what they sense or feel is the greatest challenge to them in finding markets and such. I have not read their testimony. I am just assuming that that will be the crux of the subject matter. What is your estimation? What do you think it is? What do you think they are going to tell us in the next hour or so?

Mr. SANCHEZ. Well, I think what the American business community tells us every day is that they understand the importance of exports and they want to export more, and so in order to do that we have to reduce trade barriers. Now, we are doing that certainly with trade agreements, which are a very important tool, but we do it in a lot of other ways as well—harmonizing standards, regulatory cooperation, really putting a spotlight on corruption or the lack of intellectual property rights protection. These are issues that of vital concern to the business community. We work very closely with them to try to reduce these non-tariff barriers every day. So I think they will tell you that we need to get the three pending trade agreements completed. I think they will also tell you that the Trans-Pacific Partnership which will also expand and benefit us in the Asia Pacific region needs to get done, and we are on track. We are hoping to have the framework for an agreement on that in November, and they will also tell you we need to the base hits. You know, trade agreements you might think of as home runs. Base hits are working every single day resolving the trade barriers that Congressman Pompeo referred to that may affect one particular sector or in some cases one particular company. It is working on those issues that I mentioned country by country. I have privilege of serving on the commercial dialog with Brazil and another commercial dialog with India where we raise these issues that create non-tariff barriers. Those are the base hits that we have to be hitting every day along with the bigger home runs like trade agreements.

Mr. GONZALEZ. Thank you very much, and I would yield back the balance of my time.

Mrs. BONO MACK. I thank the gentleman. The chair recognizes the gentlelady from Tennessee, Ms. Blackburn, for her 5 minutes.

Mrs. BLACKBURN. Thank you, and thank you, Mr. Secretary.

Let us stay right there talking about these emerging markets—Brazil, China, India. Tell me what you are doing to help our businesses. In Tennessee, our exports have increased tremendously. You know that. You know that this is an issue that is important to us just like the intellectual property protections are important to us and so since you raised Brazil, which is a market that we have our eyes on, talk to me about what ITA is doing on a daily basis to help businesses take advantage of opportunities that are there or to seek out and know where they can be competitive. How are you helping them target and drill down on these?

Mr. SANCHEZ. Thank you, Madam Congresswoman. Brazil is a very important market for us. It is one of our targeted emerging markets. We have a team of trade specialists in country in Brazil as well as our domestic network that work with companies around the country to take advantage of the opportunities that exist. Let me give you a few in the infrastructure space. As you well know, Brazil is going to be host to the Olympics as well as the World Cup. It is estimated that Brazil will spend over $200 billion in infrastructure, and American companies are well positioned to support Brazil as they grow in that space. So we are working closely with the business community promoting that. We have trade missions there. We have information available through our portal, our web portal, Export.gov, and we will continue to focus on that. So on export promotion, we are disseminating information, taking trade missions, extending gold key services, which is a customized service that is extended on a fee basis for companies that want to go down there and have appointments already made for them so they can hit the ground running. So we are doing a lot on the export promotion side.

Mrs. BLACKBURN. So you are facilitating the information dissemination and the awareness as well as the onsite, in-country relationship?

Mr. SANCHEZ. Yes, ma'am. We are doing both.

Mrs. BLACKBURN. All right. Let me switch gears, since I just have a little bit more time left. I want to look at the export initiative.

Mr. SANCHEZ. Yes.

Mrs. BLACKBURN. And ask you a little bit about what steps the bureau is taking to make certain that we avoid duplication and redundancies and duplication of efforts among other federal agencies. You know this is something that we want to make certain we clean up a lot of the bureaucratic operational processes, so as we look at this, and you know Congress has not appropriated funding for this yet, what are you doing that is going to ensure that you get rid of some of these redundancies before you stand it up?

Mr. SANCHEZ. Well, let me highlight three things. First, we have the trade promotion coordinating committee, and that trade promotion coordinating committee has as its membership all of the agencies that have some role, even if it is a very small role, in export promotion. We meet regularly. We talk about what we are doing. We look for places to collaborate and cooperation. So for example, under that effort, we recognize that our best use of the trade specialists that we have both domestically and internationally are for companies that are export-ready, companies that have already dipped their toe in the water and are exporting, although they may only be exporting to one market or two markets. So we have begun to focus on those companies. Now, there are a lot of companies that have never——

Mrs. BLACKBURN. So you are focusing more on enabling growth rather than enabling entry?

Mr. SANCHEZ. ITA is focused on that. SBA through this effort of making sure that we weren't doing duplication and maximizing our resources, we work with SBA who now takes the lead on companies that have never exported before.

Mrs. BLACKBURN. OK.

Mr. SANCHEZ. So on the trade promotion coordinating committee is one. Number two, within ITA, we have looked at how we can streamline our own efforts and make it tighter, so we have a unit of manufacturing and services. Their mandate was quite broad and we are looking at now streamlining that and focusing it just on sectors that have export potential, and then more broadly, as Congressman Butterfield alluded to, the President has directed his team to look at how we do export promotion and trade policy and see if we can't do it better, more effectively and more efficiently. So on three levels we are actively——

Mrs. BLACKBURN. Do you feel like that in that process—and my time is nearly up. Do you feel like in that process you are picking winners and losers, or no?

Mr. SANCHEZ. No, that is not our job. It isn't our job, but it is our——

Mrs. BLACKBURN. OK. My time is expired. I yield back.

Mrs. BONO MACK. The chair recognizes the chairman emeritus of the full committee, the distinguished John Dingell.

Mr. DINGELL. Madam Chairman, thank you for your kindness, and I really much appreciate you holding this hearing. It is important leadership in a very important area. Thank you.

I have an excellent opening statement which I have inserted in the record, and I hope everybody will read it and find it both enlightening and enjoyable.

[The prepared statement of Mr. Dingell follows:]

PREPARED STATEMENT OF HON. JOHN D. DINGELL

Thank you, Madam Chair, and I commend you for exercising our Committee's often overlooked jurisdiction over trade-related matters.

I wholeheartedly agree with calls to increase U.S. exports in order to put people back to work and restore our country's reputation as a place that makes things. When I came to Congress some years ago, the United States exported more merchandise than it imported. We now enjoy a sizeable goods trade deficit, attributable, I believe, to unfair and deceptive foreign trade practices, similarly poor enforcement of our own trade laws, free trade agreements that are anything but, our ballooning debt and associated interest payments thereon, and a general focus on promoting the interests of the financial services sector over those of our domestic manufacturers. The current recession gives us the opportunity to re-orient U.S. trade policy toward the job-creating export of tangible manufactured goods and away from the smoke and mirrors long associated with Wall Street.

I welcome our witnesses this morning, particularly Commerce Undersecretary for International Trade, Francisco Sanchez. I intend to focus my attention on the pending Korea-U.S. Free Trade Agreement and ask that you, Mr. Sanchez, help me improve my understanding of that deal by responding to a series of "yes" or "no" questions. I hope to learn about the deal's potential effects on the automobile industry, which, as my colleagues and those assembled here today know, is of great importance to my home state of Michigan.

I thank you for your courtesy, Madam Chair, and yield back the balance of my time.

Mr. DINGELL. Now, Mr. Secretary, thank you for appearing before the committee today. I have a number of questions to ask you which though I think the best answer is a yes or no, and I will try and see that you have them in writing so that you may later make such additional comments as you find necessary. I want to tell you, I am a particular admirer of your department, particularly your Foreign Commercial Services Agency and the market access and compliance operation that you have down there. These are very important to us in our trade, and I hope my colleagues on the committee will inform themselves of the work that they do in increasing American exports and improving our trade posture.

President Obama recently announced that the KORUS FTA will create 70,000 jobs in the United States. Korean President Lee Myung-bak has announced that the deal will create 335,000 jobs in Korea in the next 10 years. Do you agree with these estimates? Yes or no.

Mr. SANCHEZ. First of all, I just want to say thank you for the kind comments about the International Trade Administration. I can't speak to the estimates by the Korean president, but yes, I do agree with the estimates and the impact on the U.S. economy.

Mr. DINGELL. You have no reason to challenge either set of figures?

Mr. SANCHEZ. I have no reason to challenge, and I can——

Mr. DINGELL. Thank you, Mr. Secretary. The International Trade Commission's 2007 report on KORUS FTA as amended in March 2010 indicated that the U.S. motor vehicles and parts trade deficit with Korea would increase between 1 billion and 1.3 billion annually if FTA was implemented. Does the Department of Commerce estimate this as well? Yes or no.

Mr. SANCHEZ. I would need to look at that. I can't answer that.

Mr. DINGELL. But you have no reason to challenge those numbers at this time?

Mr. SANCHEZ. Not at this time.

Mr. DINGELL. I am troubled by the KORUS FTA's country-of-origin rules. Is it true that such rules permit a product from Korea with a minimum 35 percent Korean content to be considered as having originated in Korea for U.S. tariff purposes? Yes or no.

Mr. SANCHEZ. I am not familiar with that provision so I can't——

Mr. DINGELL. I believe it is so. Do you have any reason to challenge it?

Mr. SANCHEZ. Not at this time.

Mr. DINGELL. All right. Mr. Secretary, for the sake of argument, is it possible if that be true that a Korean product with 65 percent Chinese content could be imported to the United States under the KORUS FTA's favorable tariff conditions? Yes or no.

Mr. SANCHEZ. If that provision is in place, I suspect that would be true.

Mr. DINGELL. Now, Mr. Secretary, I note that KORUS FTA as amended last December includes a provision that allows United States to snap back its tariffs on automobiles and light trucks if Korea violates the terms of FTA. Is it true that the agreement does not allow the United States to snap back to its original 25 percent tariff on light trucks? Yes or no.

Mr. SANCHEZ. Mr. Chairman, I am not familiar with that provision but I have no reason to challenge your statement.

Mr. DINGELL. Mr. Secretary, I appreciate your courtesy and the way you are responding. Further, Mr. Secretary, is it true that the snapback provision would allow Korea to reimpose an 8 percent tariff on U.S. vehicles while the United States would be allowed to impose a tariff of only 2.5 percent on Korean passenger vehicles? Yes or no.

Mr. SANCHEZ. Once again, I am not familiar with that specific provision but have no reason to challenge your statement.

Mr. DINGELL. Mr. Secretary, I appreciate your courtesy. Finally, Commerce will bear significant responsibility in enforcing the terms of KORUS FTA. Will you commit that the Department of Commerce will do so vigorously, vigilantly and fairly?

Mr. SANCHEZ. Yes.

Mr. DINGELL. Mr. Secretary, I want to thank you again for your appearance here. I want my colleagues to know the very great importance of the department of which you are part and the extraordinary good work that you do in stimulating our trade efforts abroad, particularly the assistance that you give to small businesses and middle-sized businesses as they seek to increase their exports and that your services in this particular area are extraordinary.

Madam Chairman, I think it would be useful if this committee were to take a look at that because they do superb work in these areas and they do not have the funds and the resources they need for producing the kind of benefits that they can produce if we provide them support. Again, Madam Chairman, I thank you for your courtesy and for your wisdom in this matter. Thank you.

Mrs. BONO MACK. I thank the gentleman, and the chair recognizes the gentleman from Illinois, Mr. Kinzinger, for 5 minutes.

Mr. KINZINGER. Thank you, Madam Chairman. Again, Mr. Secretary, how are you?

Mr. SANCHEZ. Good.

Mr. KINZINGER. You have obviously heard this today. You know where we are coming at on this. One of the reason disappointments I have had is just, I think, the feeling that there is no real hurry to do anything in Colombia or Panama or really this idea that we can't find out exactly what it is but there is a hesitancy. I don't know if it is an attempt to satisfy base. I don't know what is going on but there is really a hesitancy to do it, and I can tell you in my own life, prior to coming here I was and remain in the reserves, a pilot with the military, and I actually have been involved in some joint operations in the south and I can tell you they are a very strong ally of the United States, specifically, Colombia I am talking about now, Panama as well, but a very strong ally of the United States, and one of my concerns as we continue to kind of just limp along or dilly-dally and we don't pass this agreement which was negotiated years ago now, I am afraid that we begin to lose that support in Colombia where the people begin to wonder, you know, what is the hesitancy. Every moment that goes by that this agreement is not in place that we are unable to export in a very strong way to these nations, other countries like China, European nations are very quick to come in and pick up that vacuum, pick up that slack. So I really feel that every moment that goes by not in Colombia specifically I am talking about now we are losing potentially the support of the people as they wonder what is happening and we lose market export opportunities, not to mention the fact the role that a free trade agreement or really a leveling of the playing field for us, what a free trade agreement would do in terms of just generally national defense, continuing to build that alliance in an area of the world where frankly American interests have begun to be challenged by many fronts and especially on the eastern front of Colombia. So that is a concern I have.

Let me ask you a few questions, and I guess I will start with one first. You testified that the Korean free trade agreement represents $10 billion in exports and 70,000 American jobs. In both that and the one with Panama and Colombia that have been sitting on the table, have there been any estimates so far about how much really has been left on the table by our failure to implement these trade agreements over the last few years, how many potentially the export amount we have lost or how many jobs have not been created because this has been sitting on the table for so long?

Mr. SANCHEZ. I know that with the Colombia trade agreement, I can say forward leaning. I can't speak to years past but forward leaning it is estimated to increase exports by about a billion dollars to that country, Panama, I think slightly less than that. But let me just say, Congressman, that I agree with you completely in how important moving these trade agreements is. As with you, I have a history with Colombia as a businessman and I recognize Colombia not only as a good friend and an ally but as a strong commercial partner, so it is important to move forward on this.

Mr. KINZINGER. Well, and so I think that is good because from what I am hearing from you, it sounds like we are going to have enthusiastic cooperation from the Administration here very soon over passing all three of these trade agreements, which I think would be great for the American economy and I look forward to working in a bipartisan way with the Administration on that.

In your opinion, what are the biggest impediments right now to our global competitiveness for our business and our exports?

Mr. SANCHEZ. Well, let me put them in two categories. One is domestic. Only 1 percent of American businesses export. Compare this to Germany, 12 percent of their business is exports. So one challenge we have is getting the word out to American business, particularly small- and medium-sized companies, that we can no longer look at our market as a community, a state or——

Mr. KINZINGER. Well, I think business knows that. I think we need to get that out continually and I would love to hear the Administration continue to talk about this to organized labor, to the American people about the importance of trade. Go ahead.

Mr. SANCHEZ. Well, I think a lot of American business does but I want to see more American businesses exporting, and then within that 1 percent, 58 percent of those companies only export to one market. So we need to do a better job of selling our goods and services abroad.

Mr. KINZINGER. Well, let me ask you something because I am almost out of time. What about corporate tax rates?

Mr. SANCHEZ. I think we need to look at everything that can have an impact on our competitiveness.

Mr. KINZINGER. Well, what about corporate tax rates specifically?

Mr. SANCHEZ. I think corporate tax rates should be looked at. I think they should absolutely be looked at as——

Mr. KINZINGER. Would you support reducing corporate tax rates so that we could reduce our costs overseas and be more competitive in the export market?

Mr. SANCHEZ. Well, I certainly support a review of what we need to do.

Mr. KINZINGER. All right. Thank you, sir.

Mr. SANCHEZ. Thank you.

Mrs. BONO MACK. The chair recognizes the gentleman from New York, Mr. Towns, for 5 minutes.

Mr. TOWNS. Thank you very much, Madam Chair. Let me thank you and the ranking member for having this hearing. I think it is a very important hearing and you are doing it in a very timely fashion, and I like that as well.

Let me ask you, since it is our job to analyze how trade barriers are hurting American industry, will you develop an analysis of the impact that the current visa processing procedures and visa interview delays in key growth markets like Brazil, China and India are having on travel to the United States and provide it to this committee?

Mr. SANCHEZ. Congressman, you raise an important issue. I am happy to provide information that could be useful to you and to this committee. What I can say about that issue is that my boss, Secretary Locke, heard an earful from American business all over the country. He then raised this with Secretary of State Clinton. He also heard about concerns when people come to our borders and entry points so from those conversations a working group has been established between Commerce, State and Homeland Security to focus on visa and entry issues. We use that working group to gather information from the business community and make sure that State Department and Homeland Security knows about these issues. We also use it as dissemination of information to the business community. So we are aware that this is a problem that we can solve ourselves and we are working on it and working very closely with State and Homeland Security.

Mr. TOWNS. So you don't need the Congress to do anything?

Mr. SANCHEZ. Well, I wouldn't say that. What I would say is that we will provide you any useful information that we have gathered, particularly in the last year and a half that we have been working closely with those two agencies on this issue.

Mr. TOWNS. In your testimony, you said that you will use all the tools in your toolbox. What tools do we have in that box?

Mr. SANCHEZ. Well, we have a lot of tools. On the export promotion side, we took 35 trade missions last year, a record-setting number. We had 400 companies participate in it. We also have an international buyers program where we bring—last year we brought 13,000 foreign buyers to our shores to trade shows and we connected them with American businesses where sales were made. We provide market analysis. We have a gold key service, which is a fee-based service for companies that want us to help them identify the right distributors or potential buyers, and we arrange their meetings for them in country so that is on the export promotion side, a sample of services.

On the policy side, we focus on non-tariff trade barriers and try to work with the business community on identifying them, putting a spotlight on those barriers and then working with our trade partners to reduce them.

Mr. TOWNS. In your testimony, you also indicated that "we are doing our part to keep America globally competitive and implement President Obama's National Export Initiative." What are some of the things you are actually doing?

Mr. SANCHEZ. Well, one is certainly reducing trade barriers abroad. The more barriers we can reduce, the more competitive we will be. On the domestic side, the President is committed to the R&D tax credit and making that permanent. One of the greatest competitive advantages we have around the world is we invest more in research and development than any other nation in the world. We need to continue to do that, and the R&D tax credit will go a long way to helping that happen.

Mr. TOWNS. Before I yield back, let me thank you for the work that you are doing.

Mr. SANCHEZ. Thank you, Congressman.

Mr. TOWNS. I really, really appreciate it, and I think that you are moving in the right direction. If there is anything that we need to do on this side of the aisle, I think you just need to voice it because I think more and more people are beginning to realize how important it is to improve in terms of our trade and strengthen our relationship across the board and realizing that there is a correlation between unemployment and crime. We have to recognize that, and I think that more and more people realize it and that we hope to be able to remove those trade barriers and be able to move forward.

On that, Madam Chair, I yield back.

Mr. SANCHEZ. Thank you.

Mrs. BONO MACK. I thank the gentleman. The chair recognizes Mr. Guthrie for 5 minutes.

Mr. GUTHRIE. Thank you, Madam Chairman.

Thank you, Mr. Secretary, for coming today. I appreciate that. I know you mentioned tourism earlier, and that is a great industry. We have people coming here. I think it is important. I guess I didn't think of it so much as exports, but it is great when people are here, and when I hear somebody walking around with a foreign accent out here, I will stop and talk to them because I am proud to show off our great capital city to them and appreciate them being here.

But I was thinking I remember being in another country, somewhere I won't mention, but standing in this grand marketplace, great buildings, a castle, the whole, just fantastic, and they were talking about the great ships that came in and out of the harbor, and it dawned on me as I was standing there. I said you know what their biggest industry now is selling the history of when they were a great power, and that is something that we need to make sure—I mean, that was their number one industry was people coming to see the great buildings built when it was a great power, and we have to be mindful as we are here, and in Brazil, Brazil in the late 1990s, I believe it might have been the mid-1990s to late 1990s, had financial issues, deficit problems, and took some tough medicine. They were willing to take the tough medicine, and the president at the time, Cordoza, led that effort. They had the same kind of federal system we have. And look where they are now. I think the benefits of that have paid off tremendously. It is a wonderful country, a great place to be, 180 million people, maybe somewhere around that.

Mr. SANCHEZ. I think over 190.

Mr. GUTHRIE. Over 190 million now. But I do know there are trade barriers between Brazil. I know the President is either going or is there.

Mr. SANCHEZ. Yes.

Mr. GUTHRIE. What is going on with Brazil in particular?

Mr. SANCHEZ. Well, it is certainly one of our targeted emerging markets. As you have pointed out, many, many years ago Brazil was called the sleeping giant. Well, it has awoken and it is a tremendous opportunity for American business, but also has challenges both tariff and non-tariff barriers. As I mentioned earlier, I have the privilege of co-chairing the commercial dialog with Brazil. That is the vehicle we use to raise trade issues, and so we have done everything from trying to get them to open up their express delivery service. Express delivery is very important for our small- and medium-sized companies who don't have their in-house logistics operations, and we made progress there. We are working with them on harmonizing standards in a number of sectors but in particular in alternative energy because we see a great opportunity to boost our efforts there. We are working closely to bring our smart grid technology to Brazil, so we are working on a number of fronts to create opportunities, and as I mentioned earlier, we are doing a lot of export promotion in the infrastructure area because Brazil will be making significant investments in that sector over the next 6, 7 years.

Mr. GUTHRIE. And that is all good. Also, just the product manufacturing to ship in is something that is interesting. On the export initiative that is coming out of the White House, is it solely focused on tariff barriers or are you trying to make ways to business more competitive? I know you talked about the research credit, but when you talk to businesses now, they are just concerned about the regulatory environment. We had an issue yesterday we were hearing in the full committee about energy costs that could come because of the way the EPA is regulating. I know in Kentucky manufacturing, energy, that gives us competitive advantage in Kentucky compared to other countries because we have low energy prices, and a lot of businesses are just concerned not just about getting into countries and finding out opportunities but being competitive because of the regulatory structure that is coming down. I don't know if you guys are looking. Is this just a Commerce Department initiative or are you looking at——

Mr. SANCHEZ. No, the National Export Initiative is a government-wide initiative specifically on regulations. The President has directed his Administration to look at regulations and how they affect our competitiveness, and Commerce participates in that review. We don't get involved in every regulatory review but those that have significant economic impact, and then finally, looking at regulations abroad that affect our competitiveness is something we take a very active role in as well.

Mr. GUTHRIE. And I am just about out of time. The three trade initiatives together we have discussed today, if they were moved in together, I don't know if you said it or maybe I read the Administration says that would put all three in jeopardy if they moved together. Do you find that to be the case if we were to approve all three at the same time?

Mr. SANCHEZ. You know, I am not aware of who said that but what I can tell you is this. I know we have one that is ready to go now, and as Ambassador Kirk said I think in recent testimony, if we are a company and we have a product ready to go, we ought to take that product to market. So we are going to do that. The other two, I think we are close. We are working very, very hard. There has been a lot of activity with both Panama and Colombia. I know the President is committed to getting them to Congress and so I would say let us finish up the work we have to do on these other two. We are working them. There have been meetings. In fact, there are meetings going on I believe today with Colombian officials and U.S. officials, and let us move with the product we have ready, which is Korea.

Mr. GUTHRIE. All right. Thanks. I will yield back.

Mr. SANCHEZ. Thank you, Congressman.

Mrs. BONO MACK. The chair recognizes Mr. Harper for 5 minutes.

Mr. HARPER. Thank you, Madam Chair.

Good to see you, Mr. Sanchez.

Mr. SANCHEZ. Thank you, Congressman.

Mr. HARPER. Thank you for being here. I know you would rather be getting a root canal right now than having to come join us, but we thank you for your time and patience with us today.

Mr. SANCHEZ. So far it just feels like filling a cavity.

Mr. HARPER. That is good. Well, hopefully it won't get any worse than that.

Mr. Sanchez, I wanted to talk to you about an issue that I believe just happened very recently, perhaps yesterday, when the Commerce Department announced the final determination in an administrative review of the anti-dumping duty order against frozen fish fillets from Vietnam. Of course, this announcement, as you know, represented a reversal from a preliminary determination that your agency announced I believe just last September. This decision seems to be at odds with your stated mission of improving the competitiveness of U.S. industry and taking appropriate steps against unfair trade. What is most concerning to me is the apparently perhaps political nature of the decision your agency announced yesterday. I understand that just after last September's preliminary determination, the Vietnamese significantly stepped up the diplomatic pressure on the Commerce Department. Further, I understand that this diplomatic pressure culminated with a meeting only a few weeks ago very late in the administrative review process between you and the Vietnamese government. I also understand that when the U.S. industry requested a meeting with you to present their side of the case, you were personally unavailable or unable to make room on your schedule. And then I also understand that in just a couple of weeks, perhaps in early April, you plan to lead a trade mission to Vietnam, and I believe that is a good thing. You know, that is certainly an important thing for you to do, to lead a trade mission to Vietnam. However, I am concerned that this recent decision perhaps may have been political in nature and that it has been made to the detriment of a U.S. industry and of course thousands of workers in that industry. So I would ask if you could help this committee better understand how the department reached this final decision.

Mr. SANCHEZ. Congressman, I take my role as enforcing our trade laws very, very seriously. I think it is one of the most important things we can do is to make sure we are creating a level playing field at home for American business. I can assure you, I can look you and this committee in the eye and say that this decision was made based on the statute that we have to follow and based on the facts in the record. Politics played zero role in this decision. In this particular case, a preliminary decision was—because Vietnam is a non-market economy, we have to look at other markets to determine our evaluation of whether or not there is dumping going on. In the preliminary finding, we looked at the Philippines. Subsequent to that preliminary finding, we reviewed the record, and based on the information in the record determined that Bangladesh was a more appropriate market, analogous market. This was based on what was brought in by the petitioners as well as those defending, that is, the Vietnamese, and based on that, it was determined by our staff that Bangladesh was the more appropriate market. Upon doing that, that changed the calculation.

But let me just close by saying enforcing our trade laws is absolutely critical. I do that with great pride. There were no political considerations taken in making this decision. We followed the statute and we used the facts as were presented.

Mr. HARPER. When this change was made, when you were looking at the surrogate market economy, so previously, let us say back to September of 2010, before that which country was used?

Mr. SANCHEZ. I believe it was the Philippines.

Mr. HARPER. And then the change was made, was that September of 2010 that the change was made?

Mr. SANCHEZ. You can't hold me to the dates.

Mr. HARPER. But the change was made to Bangladesh?

Mr. SANCHEZ. Correct.

Mr. HARPER. Did you get a pushback from the Vietnamese government on making that change?

Mr. SANCHEZ. I got no pushback on any change, and if we had gotten a pushback, it wouldn't have made a difference. The only thing that would make a difference is the facts that are presented to us, what makes the most sense as we apply the statute.

Mr. HARPER. You understand our concern, though?

Mr. SANCHEZ. I absolutely understand.

Mr. HARPER. The appearance and the timing and some of those events that took place, we just needed to get a better explanation on that.

Mr. SANCHEZ. I understand.

Mr. HARPER. With that, I yield back.

Mrs. BONO MACK. I thank the gentleman. The chair recognizes Dr. Cassidy for 5 minutes.

Mr. CASSIDY. Hello, sir.

Mr. SANCHEZ. Hello, Congressman.

Mr. CASSIDY. I am struck as I look at—can you just speculate on the potential benefits to our export of products such as rice if we complete that Colombia free trade agreement?

Mr. SANCHEZ. I can't speak specifically to rice but I can speak without any hesitation that the trade agreement would be very, very good for American business, and the President fully supports getting that completed and getting it to Congress. I can tell you that I would like to see it completed because it will help me in my job doubling exports by 2014, as the President pointed out.

Mr. CASSIDY. Now, there has been concern from some folks that Colombia's human rights record is such that we should not have that free trade agreement. Do you have any assessment of that?

Mr. SANCHEZ. Well, my understanding is that the issues that we are focused on are certain provisions in the Colombia labor code and concern about violence toward labor organizers and the impunity that happens when violence occurs, that people literally have gotten away with murder. What I can say is that the Colombian government is a strong collaborator in confronting these issues and working with us to address those concerns. We have been meeting with them. There has been a lot of activity over the last 6 weeks, I would say, and I think that both the Colombian government and our team are committed to working through the concerns we have, finding a solution and getting this to Congress as soon as possible.

Mr. CASSIDY. Not to put words in your mouth, but it is my general sense that there has been dramatic improvement in that record over the last decade.

Mr. SANCHEZ. I think there has been. I have a personal history with Colombia and I would agree with you. I think there have been improvements and I am particularly impressed with the Santos administration, the current administration that has taken great steps to focus particularly on this issue that concerns us. In addition to that, the vice president of Colombia was a 20-year labor leader and he is a strong proponent of the free trade agreement.

Mr. CASSIDY. So some of the criticism was that the violence was particularly directed towards labor unions so the fact that he is a labor leader and also a leader in their government I presume is particularly significant.

Mr. SANCHEZ. Well, I think he is a strong voice to underscore that he is going to pay attention to the concerns that we have raised, and they actually have taken a lot of steps since August when they took——

Mr. CASSIDY. Let me interrupt, just because I have limited time.

Mr. SANCHEZ. Sure.

Mr. CASSIDY. Now, what I am about to ask is kind of sociological in nature so you may defer. It is my general impression, though, that as countries become bigger trading partners, they become more prosperous, and as they become more prosperous, there are more employment opportunities for folks rather than to be a mule to bring cocaine across the border. So do you know if there is a body of literature that suggests that as a country becomes more prosperous, they are less likely to resort to international criminal activity?

Mr. SANCHEZ. I am not familiar with any body of literature that focuses on that but what I can tell you is that I believe that a Colombia trade agreement will be good for our country.

Mr. CASSIDY. Now, let me ask you, changing subjects, my district, Louisiana Baton Rouge area, has a lot of petrochemical plants. When I was looking over our exports to Korea, and we have apparently lost many of our petrochemical imports to China. Now, is that a function of China just having proximity? Is it a function of China, you know, not having the same environmental regulations and so that they can lower the cost of production because they can potentially pollute with impunity or is it because no, these tariffs are actually the barrier, and if we eliminate these tariffs, whatever else is there we will overcome it?

Mr. SANCHEZ. I believe it is probably a combination of many of the things that you mentioned. What I do know is by ratifying this agreement, we will put our American companies in a much better competitive position and I believe it will help and benefit companies in Louisiana as well as other States around the country.

Mr. CASSIDY. It has been my general impression that if we do a value-added product, oftentimes the Chinese don't do that well. They do the commodity generic product but the value-added they don't, but of course, the value-added is the most value.

Mr. SANCHEZ. Well, what I would say, and I think we will agree on this, is that when you lower barriers both tariff and non-tariff, we can compete with anybody in the world, and I believe that those companies in Louisiana will be well served by the Korea trade agreement.

Mr. CASSIDY. I will add to that, our workers can out-compete with anybody.

Mr. SANCHEZ. I agree with you.

Mr. CASSIDY. I yield back. Thank you.

Mr. SANCHEZ. Thank you, Congressman.

Mrs. BONO MACK. The chair recognizes Mr. McKinley for 5 minutes.

Mr. MCKINLEY. Thank you, Madam Chairman.

Sorry I am late. We have a meeting downstairs going and I am splitting my time.

Mr. SANCHEZ. I heard I have competition.

Mr. MCKINLEY. I have a series of things. I am coming from the northern section of West Virginia, and you have a representative there in our district that is helping out, but I have had conversations with him and he is very frustrated with what is happening long term. The last American manufacturer of china is existing in the northern district, Homer Laughlin China, and he is holding on. He has got 900 union jobs and he is struggling, and he is looking for help and apparently we can't help him with the tariffs. He is up against all the countries that we have free trade with and he is losing. He can't keep up.

Mr. SANCHEZ. In the Chinese market, or you are talking about generally?

Mr. MCKINLEY. All his china. He makes Fiestaware. It is one of his main products that you will see across America is Fiestaware, but he is competing with India, Vietnam, Indonesia, Japan, China, and he is struggling, and I don't have answers for him. But when I asked him what could we do to help, he said, "Just give me some tariff protection and I can compete with them." But with the fact that he has to work with so many of the EPA requirements for air and water quality and against people that are not paying a living wage, it is very difficult for him. So I would like to have some direction how we could help Homer Laughlin China to get through all this because I have seen the demise. In the northern section of West Virginia, we had a chemical industry which was very vibrant, now gone. The glass industry, we had Fenton, Fostoria, Viking Glass, all gone because of imports. I don't want to see Homer Laughlin go the same way. In fact, we are trying to hold on to those. So I am hoping you can see there is a general problem I have with free trade, where we are going with that. We have a steel industry that they used to have 30,000—we had two steel companies, Weirton Steel and Wheeling Pittsburgh Steel with 30,000 steelworkers just 15, 20 years ago. Now we have less than 2,000, and when you speak to them about it, it is all about imports where China and Japan have dumped their steel in America but it is so costly and so time-consuming to get litigation, they just give it up, so we are down now to 2,000 with the prospects of them finally just shutting the doors after a long and very illustrious history and full employment where families have been counting on that. And then we have Marble King down in Paden City, West Virginia, the largest manufacturer of marble products in the country. She is struggling against imports that are coming in that are unfairly priced and she has been told by everyone she has to take it before whatever, is it the WTO or what? She can't afford to do that. She is just a small operation.

What are small companies supposed to do? Do we have a mentality that if you are a U.S. Steel or Weirton Steel you can handle it but these small companies are struggling. Homer Laughlin has just 900 employees. They are struggling. What can we do to help them?

Mr. SANCHEZ. Well, Congressman, in that particular case, if you will get me contact information, I will make sure that our team——

Mr. MCKINLEY. Could you have your staff contact us?

Mr. SANCHEZ. I would be happy to, and we will reach out to them——

Mr. MCKINLEY. They said they have reached out and they are hearing nothing back, so——

Mr. SANCHEZ. Well, count on it. We will reach out to them and we will sit down with them and see how we can be of help. For the broader issue, there is no question that some communities are disadvantaged by trade agreements. Those communities, we need to give them help and we have programs in place. The Trade Adjustment Assistance Program, one that President Obama is promoting from our department is the economic adjustment assistance program that helps workers, companies and communities. We can't leave communities behind as we pursue these agreements.

Mr. MCKINLEY. We feel left behind.

Mr. SANCHEZ. And so we need to make sure that we are doing everything we can to help as the world marketplace changes and affects some communities very positively and others quite negatively. So any way that we can help your community, count on us to be there to do that, and our staff will reach out to your staff specifically to work on helping this company that you mentioned.

Mr. MCKINLEY. Thank you very much.

Mr. SANCHEZ. Thank you, Congressman.

Mrs. BONO MACK. All right. The chair would like to recognize Mr. Olson for 5 minutes.

Mr. OLSON. Thank you, Madam Chairman.

Sir, I am from Texas, and I want to ask you about the beef industry and the impact of the Korean free trade agreement upon that industry. As you know, Texas produces 14 percent of the total U.S. cattle and 16 percent of the total U.S. beef cows, and we are slapped with a 40 percent tariff before this beef from Texas—American beef—reaches Korean soil. We need to get rid of that tariff. I understand that the free trade agreement does get rid of that tariff, and I ask you to stick to that because it is important for our country.

Also, Australia is very close to finalizing their agreement and they are a large beef producer as well. Could I go back to the beef producers in my State and tell them that this Administration is going to fight for them to end that 40 percent tariff and get American beef in South Korea?

Mr. SANCHEZ. Congressman, what I can tell you is that one of the reasons that we didn't bring the Korea trade agreement forward sooner is that we were working on that very issue, so we are very much aware of the impact of tariffs on the beef industry. It is probably still not perfect but it is far better, and we will continue to fight once it is ratified to make sure the implementation of this agreement makes good on the commitments that were made on beef.

Mr. OLSON. Yes, sir, I appreciate that, and as I understand it, the original tariffs were put on our beef because of mad cow disease, and obviously that is not a factor right now. That was something that was a viable argument maybe 5, 10 years ago. And so again it is very important for my beef producers back home that we have a fair market there in Korea. It is a big market and we want that market to be a U.S. market, not an Australian market.

Mr. SANCHEZ. Got it.

Mr. OLSON. Thank you, sir.

Mr. SANCHEZ. Thank you, Congressman.

Mr. OLSON. I yield back my time.

Mrs. BONO MACK. All right. Seeing no other members present, I would like to thank you very much, Mr. Secretary, for your time today. You have been very gracious, and just to say to you that it is our plan to work with you and Secretary Locke and the successor, whoever might have that next post to move our country forward and really make "Made in America" matter again. So thank you for your time.

At this point we are going to take a brief, maybe 2- or 3-minute recess as we reset the table, and again, thank you. We are hoping you are back again soon and often.

Mr. SANCHEZ. Thank you very much for the opportunity to be with you. I really appreciate it and look forward to working with all of you and expanding export of American products and services. Thank you.

Mrs. BONO MACK. Thank you.

On our second panel, we have, as you can see, five witnesses. Our first witness is Robert W. Holleyman, II, President and Chief Executive Officer of the Business Software Alliance. Welcome. Our second witness is—oh, OK, not in order, but another witness is Daniel Ikenson, Associate Director of the Center for Trade Policy Studies at the CATO Institute. Welcome. Also testifying today is John Murphy, Vice President, International Affairs for the U.S. Chamber of Commerce. We also have Jack J. Pelton, President, Chairman and CEO of Cessna Aircraft Corporation, and finally we have James Crouse, Executive Vice President of Sales and Marketing for the Capstone Turbine Corporation.

Welcome to each of you. You will each be given 5 minutes to make your testimony. To keep track of time, there are timers on either side. If you need to slide them down so you have a better view of them, feel free to do that. When you see the yellow light, you are down to 1 minute, and when it hits red, if you could briefly sum up your remarks, I would appreciate it very much. So we are going to recognize Mr. Holleyman first for 5 minutes. Welcome.

STATEMENTS OF ROBERT HOLLEYMAN, II, PRESIDENT AND CHIEF EXECUTIVE OFFICER, BUSINESS SOFTWARE ALLIANCE; JOHN MURPHY, VICE PRESIDENT, INTERNATIONAL AFFAIRS, U.S. CHAMBER OF COMMERCE; JACK J. PELTON, PRESIDENT, CHAIRMAN AND CEO, CESSNA AIRCRAFT COMPANY; DANIEL IKENSON, ASSOCIATE DIRECTOR, CENTER FOR TRADE POLICY STUDIES, CATO INSTITUTE; AND JAMES CROUSE, EXECUTIVE VICE PRESIDENT OF SALES AND MARKETING, CAPSTONE TURBINE CORPORATION

STATEMENT OF ROBERT HOLLEYMAN, II

Mr. HOLLEYMAN. Thank you very much, Madam Chairman, Mr. Ranking Member, members of this subcommittee. It is indeed a pleasure to be with you today.

This is all about creating jobs and what is the link between U.S. export policy and American jobs, and the software industry certainly knows from experience how to do that and we think there are some lessons that can apply to the broader economy.

Software contributes a $36 billion trade surplus to the United States. We employ nearly 2 million Americans at twice the national average wage. And there is one simple thing that would allow us to contribute even more and have broader impacts on the U.S. economy, and that is to reduce software theft. For us, the challenge is not how to encourage businesses in other countries to use American software. They are already using it in overwhelming numbers. But too often they are not paying for it, and so stopping illegal software use will certainly create jobs for the software industry but it will also create jobs in the rest of the American economy, and let me explain that.

Software is an essential tool of production, and nearly every company and business in every sector relies on software to create products and to do business. That includes everything from manufacturing to transportation to financial services. In the United States, 80 percent of businesses pay for their software, in contrast, in countries like China, where 80 percent of the businesses do not pay for their software. The result is an unfair competitive advantage. For companies who are operating in countries that use software to run their operations but don't pay for it, then they have an ability to undercut U.S. companies who do by and large pay for their software, and this unfair competition undermines U.S. products, U.S. sales, U.S. exports, and displaces U.S. jobs far outside of the software industry. More than $50 billion of software is installed illegally around the world, and this problem is fastest growing in large, emerging markets like China where the PC market is exploding and the software sales are not tracking. Microsoft, one of our members, commissioned a study by Dartmouth economists, who estimated that eliminating piracy in China for Microsoft products alone would create as many as 60,000 new jobs throughout the U.S. economy, and of course, this would be expanded significantly when extended to other companies.

The United States government has a variety of trade tools at their disposal to secure better protection overseas, and we believe they must be used. But to maintain our leverage in negotiations with trade partners, we also have to lead by example in this countries. Federal agencies already require the use of legal software within the Federal Government but we must also extend this to the next logical step to ensure that federal contractors are also using legal software. The U.S. Intellectual Property Enforcement Coordinator, Victoria Espinel, is exploring that very idea and others as part of her joint strategic plan on IP enforcement, and Madam Chairman, I want to thank you for your role and cosponsorship in helping create through the IP Act, the PRO–IP Act, that position which has been enormously important domestically and internationally.

But this Congress with the Administration has an even more important role: that is, to keep up the pressure on every country that is using illegal software because it not only hurts the software industry but it hurts more businesses more broadly, and I would use China as the recent example where Congress weighed in quite strongly about the unfair competitive advantage that exists because of the use of illegal software in that country where President Obama raised directly with President Hu Jintao that issue on multiple meetings. We now have good commitments in place but unfortunately, I will report, that we have not yet seen any measurable increase in sales of legitimate software by our companies as a result, and I think we know and share with you, as we do with the Administration, that the ultimate test is not the commitments but the ultimate test is whether we see increased sales and exports of U.S. software in these high-value markets that will benefit not only software jobs but it will better level the playing field between all sectors of the U.S. economy.

So thank you for this opportunity to testify.

[The prepared statement of Mr. Holleyman follows:]

BSA®
BUSINESS SOFTWARE ALLIANCE

Testimony Summary of Robert W. Holleyman, II
President and CEO
Business Software Alliance

Committee on Energy and Commerce
Subcommittee on Commerce, Manufacturing and Trade

- America's copyright industries lead the world, and software is by far the biggest of them.
  - It adds more than $260 billion in value to the US economy.
  - Software and related services employ nearly 2 million Americans in jobs that pay about twice the national average.
- The software industry knows better than most how trade drives growth.
  - US software companies depend on international sales for 60% of their revenue.
  - That is why software contributes a surplus of $36 billion to the US balance of trade.
- Software companies could export even more, but they face a huge barrier in the form of rampant intellectual property theft.
  - In 2009, more than $51 billion worth of software was installed illegally on PCs around the world.
  - The problem is especially acute in fast-growing markets like China.
    - Nearly four out of five PC programs in China (79%) are not paid for.
    - China is growing rapidly, so the commercial value of that theft has doubled in recent years to $7.6 billion.
- Software is a critical tool of production in every sector of the economy
  - Because of that, software piracy has uniquely far-reaching impact.
  - When companies in places like China run their operations without paying for software, they unfairly undercut US companies that do.
  - This undermines sales of US goods, and it displaces US jobs.
- The US government has a variety of tools at its disposal to persuade our trading partners to improve IP Protection:
  - The annual Special 301 review, which highlights markets where piracy is most prevalent.
  - Trade agreements that formalize commitments to reduce piracy.
  - Legal remedies in those agreements, which can help ensure our partners deliver on their commitments.
- Presidential leadership — with strong congressional support — is essential for successful engagement on these issues.
  - That is what happened around the recent JCCT talks with China, although we have not yet seen measurable results from China's new commitments.
- To maintain leverage on IP issues, it is important for the US government to lead by example.
  - For example, federal agencies are required by executive order to use legal software; a logical next step would be to extend that rule to contractors.
  - The Obama administration is examining that issue as part of its Joint Strategic Plan on Intellectual Property Enforcement.
  - The administration is taking a series of other actions, too, such as improving coordination between law enforcement authorities.
  - It is important to support the administration in executing the Joint Strategic Plan.
- The ultimate measure of success in all these efforts will be increased US sales and exports.

BSA®
BUSINESS SOFTWARE ALLIANCE

Testimony of Robert W. Holleyman, II

President and CEO
Business Software Alliance

Before the United States House of Representatives
Committee on Energy and Commerce
Subcommittee on Commerce, Manufacturing and Trade

Hearing on
Made in America: Increasing Jobs through Exports and Trade
March 16, 2011

Madam Chairwoman, Ranking Member Butterfield, thank you for holding this hearing today and inviting the Business Software Alliance[1] to testify. BSA is an association of the world's leading software and hardware companies. BSA members create the majority of the workplace productivity software in use in the US and around the world.

Software drives productivity and innovation in almost every economic sector, helping businesses of all sizes perform better in good times and bad. It makes our lives easier and more connected. It can educate, entertain and inspire. Our industry is dynamic, innovative, and a powerful engine for job creation and economic growth. It is also critically dependent on intellectual property protection. It is no accident that the software industry was born in this country. America's enthusiasm for technology, combined with its

[1] *The Business Software Alliance (www.bsa.org) is the world's foremost advocate for the software industry, working in 80 countries to expand software markets and create conditions for innovation and growth. Governments and industry partners look to BSA for thoughtful approaches to key policy and legal issues, recognizing that software plays a critical role in driving economic and social progress in all nations. BSA's member companies invest billions of dollars a year in local economies, good jobs, and next-generation solutions that will help people around the world be more productive, connected, and secure. BSA members include Adobe, Apple, Autodesk, AVEVA, AVG, Bentley Systems, CA Technologies, Cadence, CNC/Mastercam, Corel, Dassault Systèmes SolidWorks Corporation, Dell, Intel, Intuit, Kaspersky Lab, McAfee, Microsoft, Minitab, PTC, Progress Software, Quark, Quest Software, Rosetta Stone, Siemens, Sybase, Symantec, and The MathWorks.*

effective and constitutionally rooted system of IP protection, served as the foundation for US leadership in this field.

Let me provide a little background about the industry: America's copyright industries lead the world, and the US software industry is by far the largest of these copyright industries. The software and related services sector employs almost 2 million people in the US in jobs that pay 195% of the national average.

The US has come through a harrowing economic crisis and is still struggling to return to pre-recession levels of employment. We believe our country's ability to create jobs depends in large part on our ability to export. We support the President's ambitious goal of doubling US exports of goods and services over five years. Computer software is a critical sector in expanding exports. US software exports contribute a $36 billion surplus to our nation's balance of trade. As much as 60 percent of revenues for the leading US software companies are generated from sales outside US borders.

The software industry sits at the center of a vibrant IT economy – a virtuous circle that is producing jobs and economic growth, spawning new enterprises, and bringing innovative technologies to consumers. One major problem stands in the way of increasing our exports and expanding this ecosystem: software theft. In 2009 alone, more than $51 billion worth of software was used illegally on PCs around the world.

In the US alone, one in five PC applications installed last year were unauthorized and unpaid-for – and we have the lowest software piracy rate in the world. Many of the world's fastest growing economies are plagued with massive illegal use of software. China, for example, has a PC software piracy rate of 79%. Russia has a software piracy rate of 67%; India's rate is at 65% and Brazil's piracy rate is at 56%. Even Western European markets like France, with a 40% software piracy rate, are not immune to this problem.

The inescapable laws of arithmetic are working against us. Even as rates of software piracy have inched down in some of the fastest-growing markets, the magnitude of the piracy problem is rocketing up as more and more PCs are deployed. In China, where nearly as many PCs were sold to businesses in 2009 as in the US, the piracy rate went down by a single percentage point to 79%. At the same time, the commercial value of pirated software increased by 13 percent to a shocking $7.6 billion.

Most software theft occurs when an otherwise legitimate business makes illegitimate copies of software for its use. When repeated millions of times by businesses or consumers throughout the world, this conduct has a staggering cumulative effect.

Massive theft harms software companies, depriving them of revenue that could be invested in new products and services. The impact on the software industry in the US is particularly severe for the simple reason that the US is the leading player in the global software market. Sixty cents of every dollar spent on software worldwide inures to the benefit of US-based companies.

But the economic harm due to illegal software use overseas goes well beyond the software industry. Business software is a critical input of production for enterprises across all sectors of the economy.

- It is used by firms along with other inputs to produce a broad range of goods and services.

- It helps increase productivity by helping coordinate the inputs used in the production process *within* a firm.
- It helps boost GDP growth by increasing coordination *across* firms, industries and government.

The impact of software piracy has broad reaching consequences well outside of our industry. The end result is that when businesses from high-piracy countries disobey the law and steal the software they use to run their companies, they get significant productivity and other benefits and avoid a cost that their US competitors must bear. When their products enter the US market, they are competing unfairly with those US producers, undermining sales of US goods and displacing American jobs. This problem is repeated in every country where US businesses – in all economic sectors – compete against companies that use stolen software to reduce their costs of doing business.

BSA is working with economists to model the impact of this unfair competition on the US economy. Looking specifically at software piracy in China, preliminary results of this analysis show that the US employment impact of that piracy is substantial – particularly in the current slack US job market.

So how do we address this problem?

BSA enforces the IP rights of its member companies in the US and many countries overseas. But we are only one part of the equation. Governments need to do their part in punishing and deterring IP theft. This is particularly critical in countries like China where the problem is simply too massive for a company or a trade association to tackle on its own.

It is critical that the US government use its resources in a coordinated and effective fashion to combat software theft at home and abroad. That is why BSA ardently supported the establishment of the White House Office of Intellectual Property Enforcement Coordinator (IPEC) now under the able leadership of Victoria Espinel. This office has been in operation for a little more than a year, but has laid important groundwork by developing a comprehensive strategic plan for IP enforcement, developed with input from stakeholders, and working to ensure that agencies across the government are focused on executing this plan.

Concerted efforts by the US government are necessary to make progress on strengthening IP enforcement, specifically in three areas:

US Government Bilateral and Multilateral Engagement

One of the most critical elements in strengthening IP protection is through US government engagement with its trading partners. The US government has a variety of tools at its disposal to pressure or persuade US trading partners to address inefficiencies and shortcomings in their IP protection practices and enforcement laws. These include the annual Special 301 review, negotiation of bilateral free trade agreements, and remedies under bilateral and multilateral agreements, including the WTO TRIPS Agreement. All of these tools should be considered. In particularly intractable situations, considerations should be given to bringing a non-violation "nullification or impairment" claim, under Article XXIII of the General Agreement on Tariffs and Trade. Such actions are appropriate where a WTO member's conduct, while not violating the letter of the agreement, nonetheless denies or impairs a benefit accruing to another party under the WTO.

At the recent session of the US- China Joint Commission on Commerce and Trade (JCCT) in December, the Chinese government made several important commitments to ensure legal software use by government agencies and state-owned enterprises (SOEs).

These included commitments to: (1) treat and manage software as it does other forms of property and establish software asset management systems for government agencies; (2) allocate current and future budgets for software purchases and upgrades; and (3) develop a software legalization pilot project for 30 major SOEs. President Obama and Chinese President Hu Jintao discussed this during and in the lead up to their summit in January. As part of this, the Chinese government made an additional commitment to undertake an audit to ensure legal software use at all levels of government and make the results public.

These are very specific and important commitments that were achieved thanks to considerable pressure on this issue from the Administration and bipartisan support in Congress. Yet they remain unfulfilled. Thus far, our members report no significant uptick in sales to the Chinese government, in contrast to what had been expected in light of the commitments.

In recent years the United States has also made good progress towards improved intellectual property regimes through free trade agreements. The BSA supports these initiatives and urges their prompt implementation. This must with coupled with affirmation of commitments and practices in countries like Korea to maintain a high volume of cases to deter future instances of software piracy.

US Government Leads by Example

The US government should set the highest possible example here at home. We are pleased to say that federal agencies are already subject to an executive order that requires them to use only legal software and to put the necessary controls in place to ensure that this happens. Building on this foundation, the Administration could take action to promote the use of only legal software by federal contractors. This is one of a number of important elements of the Joint Strategic Plan on IP Enforcement that was published last year as required under the PRO-IP Act. Other specific actions to coordinate and strengthen the government's enforcement efforts included:

- Promoting enforcement of IP overseas through trade policy tools;
- Improving communication between the US government and victims of IP theft;
- Improving coordination of federal, state and local law enforcement; and
- Preventing US government purchase of counterfeit products.

We urge the US government to execute on this plan and to provide the responsible agencies with sufficient resources to do so.

Software License Management Training and Education

BSA devotes significant resources in the US and overseas to train businesses how to manage their software licenses to protect themselves from the legal, technical and financial consequences of using unlicensed software. In late 2010, BSA introduced the first industry software asset management training course aligned to the International Standards Organization's (ISO) Software Asset Management (SAM) standard. Over the course of the year, BSA will expand the online course to multiple languages so that those interested in getting the many business values associated with a world class SAM program may do so.

We also help with training as part of government capacity building efforts around the world. In Russia where the piracy rate stands at 67 percent, we have collaborated with the Russian government and other industry stakeholders on a series of trainings for judges, prosecutors and law enforcement officials on IP enforcement. Hundreds of Russian officials have participated in these trainings over the past two years. These trainings are funded by a European Commission technical assistance program and focus on addressing specific challenges the software and other copyright industries face in getting consistent and effective enforcement against IP infringement in Russia.

Conclusion

Ultimately we believe that the government should measure success or failure of these efforts the same way our member companies do – by looking at their impact on software sales. Above all else, the measure of success should be increased US sales and exports of software to key markets that today are largely shut off by high levels of piracy. The irony is that US software products dominate many of these markets in terms of use, but only capture a fraction of that in revenues due to piracy. This undercuts the ability of US software firms to drive sales and exports and contribute to their full potential to our nation's export goals. We urge the US government to measure progress based on sales results and not the often empty commitments of our trading partners.

Madam Chairwoman, the US Trade Representative has remarked that "[i]ntellectual property theft in overseas markets is an export killer for American businesses and a job killer for American workers here at home." We couldn't agree more. We have suggested some approaches to the problem. We urge the members of the Committee to consider these approaches and to explore new solutions to address this challenge. What's at stake is the future of US innovators, US industry and US workers. We stand ready to assist the Committee in this endeavor.

Thank you for this opportunity to testify.

Mrs. BONO MACK. Thank you.

Mr. Murphy, you are recognized now for 5 minutes.

STATEMENT OF JOHN MURPHY

Mr. MURPHY. Good afternoon. Madam Chairman Bono Mack, Ranking Member Butterfield, it is a pleasure and a welcome opportunity for me to testify before this subcommittee today.

For the U.S. Chamber of Commerce, no priority facing our Nation is more important than putting Americans back to work. With nearly 9 percent of the workforce unemployed, the biggest policy challenge we face over the next decade is to create the 20 million jobs that we need to replace the jobs lost in the recession and to meet the needs of our growing workforce.

With booming demand overseas for U.S. goods and services, we believe that trade can play a vital role in reaching this goal. The opportunities are immense. Already, more than 50 million Americans are employed by firms that engage in international trade. One in three manufacturing jobs depends on exports, and 1 in 3 acres on American farms is planted for hungry consumers overseas. Nor is trade just for big companies. More than 97 percent of the quarter-million U.S. companies that export are small- and midsized firms, but for companies large and small, the chief obstacle to reaching the goal of doubling U.S. exports by 2014 is the complex array of foreign barriers to American exports. Those barriers are alive and well. For example, Colombia's effective tariff on imports from the United States averages 14 percent for manufactured goods and is even higher for agricultural products. By contract, the average U.S. tariff last year imposed on imports from Colombia was one-tenth of 1 percent.

Historically, the only way the U.S. government has ever enticed a foreign government to open its market to American exports is by negotiating free trade agreements to eliminate them on a reciprocal basis. This is just what will be achieved by the FTAs with Colombia, Panama and South Korea. These are pro-growth agreements that will create good American jobs, bolster important allies and confirm American leadership around the world.

Such agreements have a proven record of success. Between 2003 and 2008, for example, U.S. exports rose by 79 percent, their fastest growth in nearly two decades. It is no coincidence that this period also saw the U.S. implement free trade agreements with 10 countries and saw earlier agreements such as NAFTA attain their full implementation with the elimination of all tariffs on U.S. goods entering Canada and Mexico.

Recognizing these benefits, countries are rushing to negotiate new trade accords but America is being left behind. According to the World Trade Organization, there are 283 regional trade agreements in force around the globe today but the United States has just 11 such agreements covering 17 countries. There are more than 100 such agreements currently under negotiation among our trading partners. Unfortunately, the United States is participating in just one of these.

The United States is standing on the sidelines while other nations clinch new trade deals. For example, the European Union has ratified an FTA with South Korea. Canada has done so with Colombia. Both of those agreements are expected to enter force by July 1st. If Washington delays further, U.S. exporters will be put at a marked competitive disadvantage in Colombia, Panama, and South Korea. According to a study by the U.S. Chamber, the United States will more than 380,000 jobs and $40 billion in export sales if it fails to implement the pending trade agreements while the European Union and Canada move forward with their own agreements. Unfortunately, this is already happening. The U.S. share of Colombia's import market for agricultural products fell from about three-quarters in 2008 to about one-quarter last after Bogota implemented a new trade deal with its South American neighbors.

In the interest of time, I will simply refer the committee to my written testimony where I have also addressed the importance of defending intellectual property at home and abroad, and I would like to associate myself with the remarks of Mr. Holleyman in that regard.

It is also important to modernize export controls s the Obama Administration has begun to do in a very positive initiative. It is also critical to develop a tax system that incentivizes investment and job creation here in the United States.

In conclusion, the United States needs a laser-like focus on opening foreign markets. We need to approve the pending trade agreements and negotiate more of them including the Trans-Pacific Partnership and an ambitious Doha Round agreement. Also, Congress should renew the traditional trade negotiating authority that every President since FDR has enjoyed. If we stand still on trade, we fall behind. At stake is the standing of the United States in the world and our best hopes for escaping high unemployment, massive deficits and exploding entitlements.

The U.S. Chamber of Commerce looks forward to working with the members of the committee to forge a trade agenda that will create jobs, opportunity and growth here in the United States. Thank you.

[The prepared statement of Mr. Murphy follows:]

Statement
of the
U.S. Chamber
of Commerce

ON: "Made in America: Increasing Jobs through Exports and Trade"

TO: Hearing of the U.S. House of Representatives Committee on Energy and Commerce Subcommittee on Commerce, Manufacturing and Trade

BY: U.S. Chamber of Commerce

DATE: March 16, 2011

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

More than 96% of the Chamber's members are small businesses with 100 or fewer employees, 70% of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business manufacturing, retailing, services, construction, wholesaling, and finance — is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 115 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross section of Chamber members serving on committees, subcommittees, and task forces. More than 1,000 business people participate in this process.

I am pleased to testify before the Committee on Energy and Commerce Subcommittee on Commerce, Manufacturing and Trade, and would like to extend my thanks for the opportunity to Chairman Mary Bono Mack and Ranking Member G. K. Butterfield. The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

No priority facing our nation is more important than putting Americans back to work. Nearly 9% of the U.S. workforce is unemployed — a figure that doubles when those who have stopped looking for jobs and the millions of part-time workers who want to work full time are included. As a nation, the biggest policy challenge we face is to create the 20 million jobs needed in this decade to replace the jobs lost in the current recession and to meet the needs of America's growing workforce.

World trade will play a vital role in reaching this job-creation goal. When President Barack Obama delivered his State of the Union address in January 2010, the U.S. Chamber and the rest of the business community welcomed his call for a national goal to double U.S. exports within five years. The rationale is clear: We cannot rely on domestic consumption to generate more demand for the goods and services we produce. The American consumer is likely to spend more frugally in the years ahead, and the federal government faces unsustainable budget deficits.

Most importantly, outside our borders are markets that represent 73% of the world's purchasing power,[1] 87% of its economic growth,[2] and 95% of its consumers. The resulting opportunities are immense.

Trade already sustains millions of American jobs. More than 50 million American workers are employed by firms that engage in international trade, according to the U.S. Department of the Treasury.[3] President Obama has noted that one in three manufacturing jobs depends on exports,[4] and one in three acres on American farms is planted for hungry consumers overseas.[5]

Nor is trade important only to big companies. Often overlooked in the U.S. trade debate is the fact that more than 97% of the quarter million U.S. companies that export are small and medium-sized enterprises (SMEs), and they account for nearly a third of U.S. merchandise exports, according to the U.S. Department of Commerce. In fact, the number of SMEs that export has more than doubled over the past 15 years.

The bottom line is simple: If America fails to look abroad, our workers and businesses will miss out on huge opportunities. Our standard of living and our standing in the world will suffer. With so many Americans out of work, opening markets abroad to the products of American workers, farmers, and companies is a higher priority than ever before.

In the Words of Business Executives

Understanding the link between trade and jobs is easier when we get the perspective of business executives from firms both large and small. For instance, Leon Trammel was the

Founder of Tramco and serves on the Board of Directors of the U.S. Chamber of Commerce. Mr. Trammell points out:

> "Tramco jumped into the world of exporting in 1972, and we've never looked back. Today we sell our high-production conveyer product lines to 56 countries around the globe. In fact, exports make up over 50% of our sales. That means about 70 of our 135 employees owe their jobs to exports. You can call Tramco a small business if you like, but we're a big exporting success."

In fact, many small businesses prosper thanks to exports even though their owners and workers may not think of themselves as exporters. Consider this insight from Jim McNerney, Chairman, President and CEO of The Boeing Company:

> "Did you know that every time a Boeing 777 lands in China (or India or anywhere else in the world, for that matter), it lands with about four million parts reflecting the workmanship of some 11,000 small, medium and large suppliers — the vast majority are from the United States?"

Indeed, some of America's largest companies owe a significant part of their own success to the exports of U.S. small and medium-sized companies, as Scott Davis, Chairman and CEO of UPS attests:

> "In my own company, trade is clearly creating American jobs. UPS is the nation's second-largest private employer with more than 400,000 people. Each time we add 22 new international packages in the United States — in other words, 22 packages imported or exported by our customers — we create another new U.S. job somewhere in our system."

The Problem: Foreign Tariffs and Other Trade Barriers

For all of these firms — large and small — the chief obstacle to reaching the goal of doubling U.S. exports by 2014 is the complex array of foreign barriers to American exports. Those barriers are alive and well, and they pose a major competitive challenge to U.S. industry and agriculture and the millions of U.S. workers whose jobs depend on exports.

From the perspective of the U.S. business community, the foremost goal of U.S. trade policy should be to tear down those barriers. Casting light on this challenge, the World Economic Forum issues an annual *Global Enabling Trade* report, which ranks countries according to their competitiveness in the trade arena.[6] One of the report's several rankings gauges how high the tariffs are that a country's exporters face. Leading the pack as the country whose exporters face the lowest tariffs globally is Chile, with its massive network of free trade agreements with more than 50 countries around the globe.

While the report found the United States did well in a number of areas, America ranked a disastrous 121st out of 125 economies in terms of "tariffs faced" by our exports overseas. In other words, American exporters face higher tariffs abroad than nearly all our trade competitors.

It is also worth noting that tariffs are just part of the problem, as they are often found alongside a wide variety of non-tariff barriers that shut U.S. goods and services out of foreign markets.

Historically, the only way the U.S. government has ever enticed a foreign government to open its market to American exports is by negotiating agreements for their elimination on a reciprocal basis. This is done in bilateral free trade agreements (FTAs), such as those pending with South Korea, Colombia, and Panama, or the Trans-Pacific Partnership (TPP), which is under negotiation. In addition, reciprocal market openings can be accomplished multilaterally, as in the Doha Round, the global trade agreement currently being negotiated under the WTO by the United States and 152 other countries.

The Solution: Free Trade Agreements

The pending FTAs with South Korea, Colombia, and Panama are pro-growth agreements will create good American jobs, bolster important allies, and confirm that America is not ready to cede its global leadership role in trade. They will generate billions of dollars in new American exports within a few short years.

Most importantly, these are "fair trade" agreements that promise a level playing field for American workers and farmers. Many Americans don't know that the U.S. market is already wide open to imports from these countries, with most imports from South Korea, Colombia, and Panama entering our market duty free. However, these countries impose tariffs on U.S. products that often soar into the double digits, limiting our competitiveness overseas. These agreements would knock down those barriers, opening the door for American companies to sell to these consumers.

If the United States is to double exports within five years, the proven export-boosting record of these reciprocal trade agreements will be indispensable. In 2003-2008, for example, U.S. exports rose 79%, their fastest growth in nearly two decades. It is no coincidence that this period also saw the United States implement FTAs with 10 countries and saw earlier agreements such as NAFTA attain their full implementation with the elimination of all tariffs.

To settle once and for all the debate over whether these FTAs have benefitted American workers and companies, the U.S. Chamber commissioned a study entitled *Opening Markets, Creating Jobs: Estimated U.S. Employment Effects of Trade with FTA Partners*,[7] which was released in May 2010. The study examined U.S. FTAs implemented over the past 25 years with a total of 14 countries. It excluded three other countries where FTAs have only recently been implemented. The study employs a widely used general equilibrium economic model which is also used by the U.S. International Trade Commission, the WTO, and the World Bank.

The results of this comprehensive study are impressive: 17.7 million American jobs depend on trade with these 14 countries; of this total, 5.4 million U.S. jobs are supported by the increase in trade generated by the FTAs.

No other budget neutral initiative undertaken by the U.S. government has generated jobs on a scale comparable to these FTAs, with the exception of the multilateral trade liberalization begun in 1947. The study also shows that U.S. merchandise exports to our FTA partners grew nearly three times as rapidly as did our exports to the rest of the world from 1998 to 2008.

The trade balance is a poor measure of the success of these agreements, but deficits are often cited by trade skeptics as a reason why the United States should not negotiate free trade agreements. However, according to the U.S. Department of Commerce, the United States is now running a *trade surplus* in manufactured goods with its 17 FTA partner countries — taken as a group — on top of the U.S. global trade surpluses in services and agricultural products.

America Left Behind

The success of reciprocal trade agreements has led to their proliferation around the globe. Countries are rushing to negotiate new trade accords — but America is being left behind.

According to the WTO, there are 283 regional trade agreements in force around the globe today, but the United States has just 11 FTAs with just 17 countries.[8] There are more than 100 bilateral and regional trade agreements currently under negotiation among our trading partners. Unfortunately, the United States is participating in just one of these (the Trans-Pacific Partnership).

The United States is standing on the sidelines while other nations clinch new trade deals. This is painfully evident in the case of South Korea, Colombia, and Panama. The pending U.S. agreements with those countries would create good American jobs, bolster important allies, and confirm that America is unwilling to cede its global leadership role in trade.

While these U.S. agreements languish, other nations are moving forward. The European Union has concluded a comprehensive FTA with South Korea, and Canada has done so with Colombia; both of these FTAs are expected to enter into force in mid-2011. Also, in May 2010, the EU signed FTAs with Colombia and Panama, and Canada has signed an FTA with Panama.

If Washington delays, U.S. exporters will be put at a marked competitive disadvantage in South Korea, Colombia, and Panama. Canadian wheat farmers will be able to sell their crop to Colombians and Panamanians at a huge discount, and European manufacturers will easily undercut their American competitors in the South Korean market.

The cost of these delays will be high. According to a study commissioned by the U.S. Chamber, the United States could suffer a net loss of more than 380,000 jobs and $40 billion in lost export sales if it fails to implement its pending trade agreements while the European Union and Canada move ahead with their own agreements.[9]

Unfortunately, this scenario is already unfolding. Following implementation of a new trade accord between Colombia and Mercosur (a customs union that includes Argentina and Brazil), "U.S. exports of agricultural products to Colombia dropped by 48% in 2009 and an additional 45% in 2010. Meanwhile, Argentina's and Brazil's sales to Colombia have climbed by over 20 percent. In dollar figures, U.S. exports of corn, wheat, and soybeans to Colombia dropped from $1.1 billion in 2008 to $343 million in 2010, a decline of 68%."[10]

In the absence of an FTA, the average tariff paid by American farmers shipping their goods to Colombia is 16.9%, while competitors in the Mercosur countries have duty-free access to the Colombian market. When the Canada-Colombia FTA enters into force — an event expected in June — American farmers and ranchers risk losing more of their market share and sales.

The implications have a profound significance in the rapidly growing Asia-Pacific region. U.S. trade with Asia continues to grow, but our market share is dropping as other countries boost their own commerce more rapidly. Over time, expanding Asian production supply chains will tend to shut out U.S. suppliers of intermediate goods and undermine U.S. manufacturers. U.S. farmers are shut out because highly protected agricultural markets are open to U.S. competitors but not to American food products. The United States will be left on the outside, looking in.

Washington's failure to negotiate more trade agreements not only hurts U.S. companies and workers, but it limits America's ability to advance its broader interests around the globe. A stronger U.S. economic presence abroad would boost America's ability to achieve its security, political, and economic goals.

Defense of Intellectual Property

Another priority to ensure the success of U.S. trade policy and to enhance the competitiveness of U.S. companies is a vigorous defense of intellectual property (IP) rights. IP rights promote economic growth; foster innovation, creativity, and competition between brands benefitting consumers; and create high paying jobs. America's IP-intensive industries employ more than 19 million Americans across all 50 states and in all sectors from manufacturing to agriculture to services, and studies have shown that these industries account for approximately 60% of total U.S. exports.

Notwithstanding these achievements, the IP industries face relentless challenges to the integrity of their products, challenges which are making it increasingly difficult to bring new creative and innovative products and services to the international marketplace.

For U.S. companies to retain high-quality, knowledge-and skills-based jobs in this country and for the United States to further develop its comparative advantage in the global trading arena, the U.S. government must aggressively press for the strongest IP substantive and enforcement provisions in the TPP. These provisions should build on the world-class provisions of the free trade agreement with Korea to level the playing field outside the United States for industries dependent on IP protection for market access.

As the most innovative and creative economy in the world, the United States has the most to lose from weak and ambiguous IP standards and from a failure to protect those IP rights or to allow counterfeiting and piracy to go unchecked. America's IP intensive industries are keen to lead the way to accomplishing the objective of doubling exports by 2014. The U.S. government can play a vital role in helping us accomplish this objective by ensuring that U.S. trade agreements embrace strong IP rights, that governments fulfill the IP commitments in international trade agreements and their own domestic laws, and that governments, businesses, and international organizations work together to combat counterfeiting and piracy, particularly online.

When Domestic Policies Discourage Exports

However, the impediments to U.S. export success aren't only found overseas; sometimes, U.S. domestic policies block the way of American exporters.

The Chamber has been working over the past several years to support the modernization the U.S. export control regime, which is rooted in Cold War-era laws. As a founding member of the Coalition for Security and Competitiveness (CSC), we released recommendations for reforms over a year ago and began a series of meetings with administration and congressional officials to press the issue. We have been pleased that, early on, the Obama Administration seized on export control modernization as a priority.

In the vision of Defense Secretary Robert Gates, the United States needs an export control system "where higher walls are placed around fewer, more critical items." "Frederick the Great's famous maxim that 'he who defends everything defends nothing' certainly applies to export control," he has said. In general, those few sensitive technologies with significant military applications must be protected, but when technologies are no longer considered "cutting edge" or are already widely available from America's trade competitors, controls make no sense.

While national security concerns are rightly at the fore in this reform process, the economic stakes are also significant. A study issued earlier this year by the Milken Institute and the National Association of Manufacturers found that modernizing U.S. export controls "could enhance real GDP by $64.2 billion (0.4 percent), create 160,000 manufacturing jobs, and heighten total employment by 340,000."

With notable leadership from Secretary Gates, a longtime champion of export control reform, as well as Commerce Secretary Gary Locke, the administration in August 2009 launched a review of the U.S. export control system by an interagency task force including all agencies with a role in the U.S. export control regime. Chamber members have supported its work to date with considerable enthusiasm.

Beyond the realm of trade, there are plenty of U.S. policies that throw sand in the gears of commerce and sap U.S. competitiveness. Arguably at the fore is U.S. tax policy. Under our antiquated universal system of taxation, American worldwide companies are taxed in the United States on their U.S. profits, taxed abroad on their foreign profits, and then taxed again when those foreign profits are brought back home. By contrast, almost all other countries use or have shifted to a territorial system of taxation which avoids the double taxation of foreign profits. Further, these countries have dropped their corporate tax rates in recent years.

While other countries are taking steps to increase their competitiveness, the United States not only maintains a high corporate rate and universal system of taxation, we actually consider proposals that would further decrease our competitiveness. Some proposals, such as limiting the ability of American worldwide companies to defer U.S. income tax on foreign earnings or curtailing the use of foreign tax credits, would significantly increase the risk of double taxation, thus hampering U.S. competitiveness even more. While these proposals have been cast as raising taxes on "companies that ship jobs overseas," these provisions are actually essential components of our tax system that mitigate some, but not all, of the double taxation American worldwide companies face.

Conclusion

For the Chamber, the agenda is clear. The United States cannot afford to sit on the sidelines while others design a new architecture for the world economy and world trade.

The United States needs a laser-like focus on opening foreign markets. This means approving the pending trade accords with South Korea, Colombia, and Panama and negotiating more of them, including the Trans-Pacific Partnership and an ambitious Doha Round agreement. To this end, Congress should renew the traditional trade negotiating authority that every president since Franklin D. Roosevelt has enjoyed. Moreover, we need to enforce our existing trade and investment agreements. International accords aren't worth the paper they're written on if we don't act to enforce them.

We must resist economic isolationism at home. Measures such as "Buy American" rules delay shovel-ready projects, add to costs, and elicit retaliation from our trading partners. Failure to comply with our own obligations under trade agreements endangers American jobs and cuts us off from lucrative export markets, as witnessed in the case of the U.S.-Mexico cross-border trucking dispute.

We need to modernize the U.S. export control system. Sensitive technologies with military applications must be protected, but U.S. export controls cover too many products that lack a significant military application or are readily available from other countries.

World trade is again expanding rapidly, and it is generating new opportunities around the globe. However, this is too often a story of missed potential. The business community could be doing much more to create jobs, lift people out of poverty, foster greater understanding and stability among nations, and solve vexing social problems if we weren't missing so many of the opportunities that global commerce can create.

If we stand still on trade, we fall behind. At stake is the standing of the United States as the world's leading power, our ability to exert positive influence around the world, our reputation and brand overseas, and our best hopes for escaping high unemployment, massive deficits, and exploding entitlements. The U.S. Chamber of Commerce looks forward to working with the members of the Committee to forge a trade agenda that will create jobs, opportunity, and growth for the United States.

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Mrs. BONO MACK. Thank you.

Mr. Pelton, you are recognized for 5 minutes.

STATEMENT OF JACK J. PELTON

Mr. PELTON. Chairman Bono Mack, Ranking Member Butterfield and members of the subcommittee, my name is Jack Pelton. I am Chairman, President and CEO of Cessna Aircraft Company. Cessna is the world's largest general aviation manufacturer in the world based on sales units, and since its inception in 1927, Cessna has delivered more than 192,000 airplanes virtually to every country in the world. Cessna is also one of the 70 member companies of the General Aviation Manufacturers Association, which represents the world's leading manufacturers of generation aviation aircraft engines, avionics and components.

General aviation is an important contributor to the U.S. economy. It supports more than 1.2 million jobs, is providing more than $150 billion in economic activity, and in 2010 generated $5 billion in exports. We are one of the few remaining manufacturing industries that still provides a significant trade surplus for the United States. These exports accounted for 62 percent of the billings generated by general aviation manufacturers, significantly up from 50 percent of the billings attributed to exports in 2009.

Cessna, like many other companies, is coping with the realities of a weak economy. Since late 2008, we had to lay off nearly 8,000 employees out of our 16,000 that we employed before the recession. The three major manufacturers in Wichita alone have been experiencing significant declines in sales in recent years. In 2010 alone, Bombardier Learjet was down 29 percent, Hawker Beechcraft was down 22 percent and Cessna was down 28 percent. We do believe the market is stabilizing as we see an increase in orders in some segments of our industry.

The tax bill that was passed in 2010 will be very helpful to our industry by extending the research and development tax credits and allowing 100 percent expensing for capital investments like aircraft, avionics, engines and cabin equipment.

Cessna fully supports the current efforts to reform, streamline and overhaul the export licensing and policy framework. As an aircraft manufacturer, we have found that we have a generally positive export environment for our physical products: aircraft spares, ground support equipment. However, ITAR in many cases is a problem for our utility and special missions aircraft sales. These aircraft do not contain sensitive military systems and are functionally equivalent to commercial aircraft and do not provide significant military or intelligence impact yet many of our export existing controls and policies have slowed our globalization and have slowed our sales efforts.

Due to the high standards we adhere to in the United States, manufacturers cannot sell aircraft or major aircraft parts unless they are certified by the Federal Aviation Administration. This means that the financial health and competitiveness of the U.S. manufacturers in the global market depends in large part on the ability of the FAA to do its job. Unfortunately, we are concerned that the FAA will be unable to meet certification requests by manufacturers in the United States unless the FAA is provided adequate resources and implements new processes and procedures to streamline the certification process. We believe it will not be able to keep up with the demand by manufacturers and this will severely diminish the competitiveness of the U.S. industry and its ability to bring new products to the global market and create new jobs in the economy.

There is, however, a mechanism already in place that can help manage the resource demands on the FAA. For aircraft certification, the FAA established organization designation authorization, referred to as ODA, in 2006. This allows the FAA to delegate routine certification tests such as the review and approval of thousands of individual drawings and tests. More of the U.S. manufacturers have invested in the development of the ODA system that has been approved by the FAA but unfortunately the certification process efficiencies have yet to be realized by our industry.

Aircraft financing in this new economic climate remains a challenge. The availability of credit continues to be a constraint on exports, and Cessna has worked very hard to create a $500 million facility backed by the Export-Import Bank of the United States. This facility has assisted Cessna with exports over the past couple years when liquidity in the market has been very tight. We do applaud the Export-Import Bank for working with us to deliver creative solutions that support our export needs.

Madam Chairman, if government and industry work together on the issues discussed here today, then we will help ensure that our country stays ahead of the pack economically and technologically in the years ahead. Thank you for the opportunity to be here today.

[The prepared statement of Mr. Pelton follows:]

Testimony of Jack J. Pelton
Chairman, President & CEO, Cessna Aircraft Company
Hearing on "Made in America: Increasing Jobs through Exports and Trade"
House Subcommittee on Commerce, Manufacturing and Trade
Rayburn HOB Room 2322
March 16, 2011

Introduction

Chairman Mack, Ranking Member Butterfield, distinguished members of the Subcommittee; my name is Jack Pelton, and I am the Chairman, President and CEO of the Cessna Aircraft Company.

Cessna is the largest general aviation manufacturer in the world based on unit sales. Since its inception in 1927, Cessna has delivered more than 192,500 airplanes to virtually every country in the world. Today, Cessna has two principal lines of business: Aircraft sales and aftermarket services. Aircraft sales include Citation business jets, Caravan single-engine utility turboprops, single-engine piston aircraft and lift solutions by CitationAir. Aftermarket services include parts, maintenance, inspection and repair services.

Cessna is one of 70 member companies of the General Aviation Manufacturers Association (GAMA). GAMA's member companies are the world's leading manufacturers of general aviation airplanes, engines, avionics and components. Member companies also operate aircraft fleets, airport fixed-based operations, pilot training and maintenance facilities worldwide.

General aviation (GA) is an essential part of our transportation system that is especially critical for individuals and businesses that need to travel and move goods quickly and efficiently in today's just-in-time market. General aviation is also an important contributor to the U.S. economy, supporting more than 1.2 million jobs, providing $150 billion in economic activity and, in 2010, generating nearly $5 billion in exports of domestically manufactured airplanes. We are one of the few remaining manufacturing industries that still provides a significant trade surplus for the United States.

On behalf of our industry and 8,000 Cessna employees, I appreciate your convening this important hearing and providing me the opportunity to testify before the Subcommittee about creating jobs through exports and trade.

Cessna, like others, is coping with the realities of a weak economy. Since late 2008, we've had to lay off nearly 8,000 employees out of the 16,000 we employed before the recession.

Overall, GAMA member companies in the U.S. have experienced more than 20,000 layoffs during this same timeframe.

It's easy to understand why this happened when you see that GA deliveries declined by 45 percent between 2008 and 2009 and by 11 percent between 2009 and 2010. In the business jet segment alone, deliveries dropped to 763 last year; that's down 42 percent from the industry's high-water mark of 1,313 set in 2008.

The three major manufacturers in Wichita experienced the following decline in sales alone:

- Bombardier Learjet delivered 28 Learjet business jets last year, a 39 percent decrease from 2009.
- Hawker Beechcraft's general aviation deliveries totaled 214 last year, a 22 percent decline from 2009.
- Cessna delivered 535 aircraft in 2010, down 28 percent from the year before.

Manufacturing inefficiencies related to low production levels were a primary reason why Cessna, for the first time since 1986, failed to be profitable, recording a $29 million loss for 2010.

In a very short amount of time, we went from a company topping $5 billion in revenue back in 2008 to a company reporting $2.6 billion in revenue in 2010.

Despite these tremendous economic challenges, Cessna and other GAMA member companies have responded by continuing to innovate and invest in new products to take advantage of market opportunities as the recession ends. We believe the market is stabilizing as we see an increase in orders in some segments of our industry, and a slowing of cancellations. The tax bill that passed at the end of 2010 which extends the R&D tax credit and allows 100% expensing of capital investments like aircraft, avionics, engines and cabin equipment will also be very helpful to our industry.

Importance of Exports

As I mentioned earlier, even in a downturn the general aviation industry remains one of the only sectors in U.S. manufacturing that still contributes positively to the balance of trade. In 2010, GAMA's U.S. members generated $4.9 billion in new airplane export revenue.

These exports accounted for 62 percent of the billings generated by U.S. manufactured GA airplanes, far outpacing the value of domestic deliveries and significantly up from 50 percent of billings attributed to exports in 2009.

Even though worldwide deliveries of GA aircraft continued to decline in 2010, the industry saw a 1.2 percent increase in billings thanks to a growing export market. Emerging markets in Asia Pacific, the Middle East/Africa, and Latin America drove this growth, while North America and Europe saw a decrease in deliveries.

In short, it is true to say that the business aviation market is subsisting largely on international deliveries, with several OEMs reporting that 60 to 70 percent of their orders last year were coming from the international customers. We've experienced this at Cessna as well; even before the economic downturn we were trending toward a reversal of the traditional 60/40 domestic/international order split.

Challenges to Exporting

Cessna fully supports rigorous, effective, predictable and transparent U.S. export control policies and practices that adequately reflect the current international trade environment. We realize that export controls play a vital part in safeguarding our national security and we support the Administration's current efforts to reform and streamline the overall export licensing and policy framework. We realize this is a substantial undertaking and we are ready to work with you to support the effort.

Producing a "positive" United States Munitions List, harmonizing the regulations' structure and applying controls based on a three-tier system with objective criteria will establish a solid foundation for the U.S. export control system of the 21st century. We believe that this new paradigm for controlling U.S. items and technology will better serve current and future U.S. national and economic security interests.

In the near term, we need to look at other ways to improve the usability of U.S. regulations from a simplicity and clarity perspective, which in some cases may involve new regulations or new resources being posted on the Internet to assist companies in complying with them.

As an aircraft manufacturer, we have found that we enjoy a relatively unrestricted export environment for our physical products (e.g., aircraft, spares, ground support equipment). However, when it comes to our company-owned and controlled locations, the export of our design and manufacturing data has proven to be another issue. For example, in the areas of metal forming and low tech composites like the hand layup fiberglass processes, the current regulations are outdated and restrict technologies and methods commonly found worldwide at the highest Commerce Export Administration Regulations control levels.

Similarly, under International Traffic in Arms Regulations Category 8 (VIII), in many cases we believe the utility and special mission aircraft we are asked to provide do not contain sensitive military systems, are functionally equivalent to commercial aircraft and do not provide a significant military or intelligence advantage, yet many of the existing unilateral controls and policies have slowed our globalization and sales efforts.

Another reform activity we believe needs to be addressed is the methodology to handle advances in manufacturing and engineering technologies that occur over time for both commercial and military products. To ensure continued competitiveness for U.S. industry, technical export control parameters should be continuously reviewed with a view toward swiftly updating those limits that are overtaken by technological advances and foreign availability of product and tools. We support an official mechanism for periodic review of the USML and Commerce Control List technical parameters, so that this specific issue can be addressed in a predictable, streamlined and efficient manner.

The regulations can actually undermine national security goals if they're unduly complicated and burdensome, and they may prove challenging for some companies to adapt to, especially some of our smaller suppliers who are unfamiliar with the regulations. This new approach will likely require guidance and training for the exporting community. It will remain important for the government to work closely with industry to ensure understanding through effective and timely outreach.

Aircraft Certification

Due to the high safety standards we adhere to in the United States, manufacturers cannot sell aircraft or major aircraft parts unless they are certified as airworthy by the Federal Aviation Administration or FAA. This means that the financial health and competitiveness of U.S. manufacturers in the global market lies in large part on the ability of the FAA to do its job.

Unfortunately, we do not believe that the FAA has the resources to continue to oversee the safety of airplanes currently in operation and also meet certification requests by manufacturers. Unless the FAA is provided adequate resources, and implements new processes and procedures to streamline the certification process, we believe it will not be able to keep up with service demand by manufacturers and this will severely diminish the competitiveness of U.S. industry and its ability to bring new products to the global market and create new jobs in the economy.

Due to this burden, the FAA has already implemented a sequencing policy that prioritizes which new certification programs it will support since it lacks the capacity to support the industry's pace of new product development. This sequencing policy has a detrimental effect on U.S. competitiveness in the global market because it forces delays in delivering U.S. products and equipment. FAA resources are certainly not expected to grow at the same pace as industry activity. We believe that the FAA needs to work with industry to develop a plan to meet the demand for new certification and that this plan should include budget estimates as well as ideas to streamline the certification process to make it more efficient.

There is, however, a mechanism already in place that can help relieve the burden on FAA. FAA is shifting toward a systems approach to safety oversight in order to leverage its limited resources and focus upon key safety areas. For aircraft certification, FAA expanded delegation systems through the establishment of Organization Designation

Authorization (ODA) in 2006. This allows FAA to approve and oversee a manufacturer's documented processes and technical engineering experts and to delegate routine certification tasks at its discretion such as the review and approval of thousands of individual drawings and tests. Manufacturers can take on more responsibility by investing in the resources necessary to support their program demands and FAA can focus its limited resources on safety oversight, safety critical activities and certification of new technologies. Most aircraft manufacturers have invested in the development of an ODA system approved by FAA, but unfortunately, the certification process efficiencies have yet to be realized. This has been particularly challenging for the FAA workforce who are not fully utilizing the level of delegation available by ODA because this means a shift to a systems approach to safety oversight and there is limited desire to change their job scope and culture.

The lack of procedural standardization across the FAA and inconsistent interpretation of regulations also negatively affect the efficiency of the certification process. This lack of standardization is found within local Aircraft Certification Offices as well as across FAA regions. This leads to an increased workload for both FAA and industry since the requirements change from one project to the next and even depend on the FAA employee or FAA office a manufacturer is working with. Last October, the Government Accountability Office released a report citing FAA's inconsistent interpretation of regulations as a long standing problem and leading challenge for the aviation industry. The FAA acknowledges the problem but generally has not addressed the issue.

As I mentioned previously, the international market is increasingly important for U.S. manufacturers. The U.S. industry continues to see increased validation requirements from foreign national aviation authorities (NAAs) to obtain a certification approval redundant to the FAA's in order to be able to sell and export its products into their country. It has become routine for manufacturers to host multiple foreign NAA visits each year. Most of these NAAs also require manufacturers to pay fees or travel costs or both, to cover the costs of the validation.

The U.S. has established bilateral agreements with our primary trading partners to streamline the validation and acceptance of FAA certified products and equipment. However, the effectiveness of the bilateral agreements varies from country to country. Some countries follow the intent of the bilateral while others do not. Those that do not tend to require more in-depth information and a more extensive investigation which is more burdensome on the industry since it must often repeat a similar procedure for each country in which it seeks approval in order to export its products.

Europe, for example, has comprehensive regulations and certification processes similar to FAA which often result in a much higher level of involvement by EASA and redundant activities for both design and operational approvals. Our ability to improve this situation has been hampered by a delay in implementation of a new safety bilateral agreement between U.S. and Europe. We now expect this agreement to be implemented on May 1st. This should allow FAA to be more proactive in ensuring the intended benefits of validation and reducing the burden on the authorities and industry.

Aircraft Financing

The availability of credit continues to be a constraint on exports. Cessna has worked through Cessna Finance Corporation to create a $500 million facility backed by the Export Import Bank of the United States. This facility has assisted Cessna, as well as our sister company Bell Helicopter, with exports over the past couple of years when liquidity in the market was very tight. We applaud the Export Import bank for working with us to deliver creative solutions that support exports across the Textron family of companies. I would note that the transactions supported by the bank are subject to the framework held under OECD for export credit financing. Recent changes to this framework resulted in significantly higher costs which will have an impact in limiting the usefulness of export credit financing in some markets, but it will still be a viable solution in other markets.

Conclusion

Madam Chairman, I cannot emphasize enough how important it is that we recognize the remarkable benefits and value that the general aviation industry brings to the American people. It is truly a national asset. It provides jobs, contributes to our balance of trade and our economy, saves lives, keeps us on the cutting edge of technology, makes our businesses more competitive globally and significantly enhances the quality of life around the world.

Progress is frequently measured as the speed at which people and goods are transported. The aviation industry has contributed more than any other industry to move America into the future and maintain our leadership on the world stage.

If government and industry work together on the issues discussed here today then we will help ensure that our country stays ahead of the pack economically and technologically in the years ahead.

Thank you for the opportunity to be here today.

Mrs. BONO MACK. Thank you, Mr. Pelton.

Mr. Ikenson, you are recognized for 5 minutes.

STATEMENT OF DANIEL IKENSON

Mr. IKENSON. Good morning, Chairman Bono Mack, Ranking Member Butterfield and members of the committee. My name is Dan Ikenson. I am an Associate Director at the Center for Trade Policy Studies at the CATO Institute. I am pleased to be here today to share my views on manufacturing, jobs and trade.

Expanding trade has been an important source of U.S. job growth historically. In the quarter-century between 1983 and 2007, as real GDP more than doubled and the real value of U.S. trade increased fivefold, the U.S. economy created 46 million net new jobs. That is 1.84 million net new jobs per year. And just to be clear, when I say expanding trade, I mean expanding exports and imports. It is important to note that it is exports and imports that support U.S. jobs up and down the supply chain through various channels. I think people generally understand that exports contribute to economic growth, which is essential to job creation, but many of them make the mistake of concluding that if exports help grow the economy and create jobs, then imports must shrink the economy and cost jobs. Trade is thus viewed as a competition between our producers who employ us and their producers, who employ them. I think that is the wrong way to look at trade.

In the 21st century, it is inaccurate to characterize international trade as a competition between us and them because of foreign direct investment, joint ventures and other equity-sharing arrangements. Quite often, we are they and they are we. Just apply that question to the U.S. auto and steel industries. As a result of the proliferation of disaggregated transnational production and supply chains, we and they often collaborate in the same endeavor. There is competition between supply chains but success first demands cooperation within those supply chains, and this reality I think demands policies that are welcoming of imports and foreign investment.

A recent study by the Asian Development Bank Institute found that just a tiny fraction of the cost of producing the Apple iPhone is Chinese value added. The only Chinese input is labor, which is used to assemble the components manufactured in other countries. The value of that labor accounts for about $6.50, or 3.6 percent of the $179 it costs to produce the total iPhone. The other 96.4 percent of the total cost is components produced in other countries including the United States. Most of the iPhone's value, however, accrues to Apple, which reaps the lion's share of the approximately 100 percent markup, and that markup goes to retailers, distributors, marketers and other firms in the supply chain as well as to Apple, which distributes some to shareholders and retains some for research and development which supports engineering and design jobs higher up the value chain so as to continue the virtuous circle. So even though only about $6.50 of that iPhone is Chinese value, the entire $179 cost is chocked up as an import from China because that was the product's final point of assembly. That added $1.9 billion to the U.S. trade deficit with China in 2009.

But should we lament a trade deficit in iPhones or any other products assembled abroad, particularly when those products comprise U.S. value added and support high-paying U.S. jobs? Legions of American workers and their factories, offices and laboratories would be idled without access to foreign workers and foreign factories. Without access to lower-cost labor, countless ideas hatched in U.S. labs which became viable commercial products that support hundreds of thousands of U.S. jobs in engineering, design, marketing, logistics, retailing, finance, accounting and manufacturing might never have made it beyond conception.

Countless U.S. jobs up and down the value chain depend on imports from China but imports support U.S. employment through many other channels as well. According to the Bureau of Economic Analysis, intermediate goods and capital equipment accounted for 55 percent of the U.S. import value last year. These are products purchased by producers, not consumers, so imports help reduce the cost of production, enabling producers to better compete and support U.S. jobs and wages. The 45 percent of imports that are consumer goods support U.S. jobs in logistics, transportation, wholesaling, retailing and aftermarket services industries, and by helping to keep prices lower and quality higher, imports allow consumers to have more resources with which to purchase other products and services, both of which support U.S. jobs.

The Obama Administration, as we heard this morning, has offered an answer to the question implicit in this hearing. Its National Export Initiative aims to double U.S. exports in 5 years by reducing an eliminating various administrative, regulatory and financial obstacles faced by U.S. exports. That plan includes some laudable components which I fully support. The idea of streamlining export controls makes a lot of sense and it is likely to lead to export growth. Wrapping up the three pending bilateral trade agreements, the Doha Round, the Trans-Pacific Partnership agreement, those will clearly all lead to increased exports.

But there are other aspects of the NEI that I find troubling. First of all, it completely ignores the import side of the equation. It is silent on the fact that U.S. exporters are producers before they are exporters and as producers they do a lot of importing, and there are many other ways to reduce their costs including through streamlining of various regulations.

Mrs. BONO MACK. Can you please wrap up? You are over the limit.

Mr. IKENSON. Yes. I will just conclude by saying a serious plan to boost U.S. economic growth and hiring should start by identifying all policies, regulations, practices and conditions that impede U.S. competitiveness not just those obstacles that confront U.S. companies as exporters. Thank you.

[The prepared statement of Mr. Ikenson follows:]

Testimony of Daniel J. Ikenson
Associate Director, Center for Trade Policy Studies,
Cato Institute, Washington, DC

before the

Subcommittee on Commerce, Manufacturing, and Trade
Committee on Energy and Commerce
United States House of Representatives

Made in America: Increasing Jobs through Exports and Trade
March 16, 2011

Summary of Testimony

Increasing the number of jobs in the economy by expanding trade—both exports and imports—is a good bet. Historically, there has been a strong relationship between economic growth, trade (both exports and imports, individually and combined), and job creation in the United States.

Despite the "Made in America" orientation of today's hearing, it is important to note that trade in products that are made in America, or partially-made in America, or designed in America but produced abroad, or entirely designed and produced abroad from components manufactured abroad supports U.S. jobs up and down the supply chain through various channels. Both exports *and imports* support U.S. jobs.

But many Americans believe that exports are good, imports are bad, the trade account is the scoreboard, the trade deficit means the United States is losing at trade, and it is losing because our trade partners cheat. Many point to the trade deficit as the obvious explanation for the much exaggerated death of U.S. manufacturing. According to polling data, Americans are generally skeptical about trade and its impact on jobs, manufacturing, and the U.S. economy. And why shouldn't they be? After all, the public is barraged routinely with misleading or simplistic coverage of trade issues by a media that is too often heavy on cliché, innuendo, and regurgitated conventional wisdom, and lacking in substance and analysis.

President Obama has already offered his answer to the question implicit in this hearing. His National Export Initiative aims to double U.S. exports in five years by reducing and eliminating various administrative, regulatory, and financial obstacles faced by U.S. exporters. Although the plan features some laudable components, it includes several errors of omission and commission that are likely to limit or undermine the NEI's success.

Any serious plan to boost U.S. economic growth and hiring should start by identifying all policies, regulations, practices, and conditions that impede U.S. competitiveness, not just those obstacles that confront U.S. companies as exporters.

Testimony of Daniel J. Ikenson
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before the

Subcommittee on Commerce, Manufacturing, and Trade
Committee on Energy and Commerce
United States House of Representatives

Made in America: Increasing Jobs through Exports and Trade
March 16, 2011

Good morning, Chairman Bono-Mack, Ranking Member Butterfield and members of the subcommittee. I am Daniel Ikenson, associate director of the Center for Trade Policy Studies at the Cato Institute. Today, I am very pleased to be able to share my views on the topic of manufacturing, trade, jobs, and other economic issues related to the subject of today's hearing. The views I express are my own and should not be construed as representing any official positions of the Cato Institute.

Introduction

Increasing the number of jobs in the economy by expanding trade—both exports and imports—is a good bet. Historically, there has been a strong relationship between economic growth, trade (both exports and imports, individually and combined), and job creation in the United States. In the quarter century between 1983 and 2007, as real GDP more than doubled and the real value of U.S. trade increased five-fold, the U.S. economy created 46 million net new jobs, or 1.84 million net new jobs per year.1 In 22 of those 25 years, the annual changes in GDP, trade, and job creation all moved in the same direction—either all positive or all negative. And as economic growth came to a halt and then turned negative in 2008 and 2009, respectively, trade contracted by 12 percent and the economy shed over six million jobs.

Despite the "Made in America" orientation of today's hearing, it is important to note that trade in products that are made in America, or partially-made in America, or designed in America but produced abroad, or entirely designed and produced abroad from components manufactured abroad supports U.S. jobs up and down the supply chain through various channels. Both exports *and imports* support U.S. jobs.

But many Americans believe that exports are good, imports are bad, the trade account is the scoreboard, the trade deficit means the United States is losing at trade, and it is losing because our trade partners cheat. Many point to the trade deficit as the obvious explanation for the much exaggerated death of U.S. manufacturing. According to polling data, Americans are generally skeptical about trade and its impact on jobs, manufacturing, and the U.S. economy. And why

[1] 2011 Economic Report of the President.

shouldn't they be? After all, the public is barraged routinely with misleading or simplistic coverage of trade issues by a media that is too often heavy on cliché, innuendo, and regurgitated conventional wisdom, and lacking in substance and analysis.

President Obama has already offered his answer to the question implicit in this hearing. His National Export Initiative aims to double U.S. exports in five years by reducing and eliminating various administrative, regulatory, and financial obstacles faced by U.S. exporters. Although the plan features some laudable components, it includes several errors of omission and commission that are likely to limit or undermine the NEI's success.

In the pages to follow, this testimony will address and attempt to correct lingering misperceptions about trade and manufacturing, describe some of the shortcomings of the NEI, and offer some alternatives for increasing economic growth and creating jobs through trade.

The Myth of Manufacturing Decline

Americans often hear that some nefarious foreign trade practices are to blame for the decline of U.S. manufacturing. But the problem with that presumption of causation is that U.S. manufacturing is not in decline in the first place. Until the onset of the recent recession (when virtually every sector in the economy contracted), U.S. manufacturing was setting new performance records almost year after year in nearly all relevant statistical categories: profits, revenues, investment returns, output, value added, exports, imports, and others. After contracting during the recession of 2008 and 2009, the manufacturing sector has come roaring back. According to the Institute for Supply Management, economic activity expanded in the manufacturing sector for the 19th consecutive month in February 2011, reaching its highest level since May 2004.2

In absolute terms, the value of U.S. manufacturing has been growing continuously, with brief hiccups experienced during recessions over the past several decades. As a percentage of our total economy, the value of manufacturing peaked in 1953 and has been declining since, but that is the product of rapid growth in the services sectors and not—as evidenced by manufacturing's absolute growth—an indication of manufacturing decline.3

The preponderance of Chinese and other imported goods on retail store shelves may give the impression that America does not make anything anymore—a fallacy sensationally exploited by ABC News in its recent series, "Made in America." But U.S. factories make lots of things—in particular, high-value products that are less likely to be found in retail stores—like airplanes,

[2] Institute for Supply Management, February 2011 Manufacturing ISM *Report On Business*, http://www.ism.ws/ismreport/mfgrob.cfm.

[3] For more comprehensive treatments refuting the myth of manufacturing decline in the United States, see Daniel Ikenson, "Thriving in a Global Economy: The Truth about Manufacturing and Trade," Cato Institute Trade Policy Analysis no. 35, August 28,2007; Daniel Ikenson and Scott Lincicome, "Audaciously Hopeful: How President Obama Can Help Restore the Pro-Trade Consensus," Cato Institute Trade Policy Analysis no. 39, April 28, 2009, pp. 12–16; and Daniel Griswold, "Trading Up: How Expanding Trade Has Delivered Better Jobs and Higher Living Standards for American Workers," Cato Institute Trade Policy Analysis no. 36, October 25, 2007.

advanced medical devices, sophisticated machinery, chemicals, pharmaceuticals, and biotechnology products. American manufacturers are no longer heavily in the business of making sporting goods, tools, clothing, footwear, housewares, and furniture, but their factories are still the world's most prolific, accounting for 21.4 percent of global manufacturing value-added in 2008, while China accounted for 13.4 percent.4

America has maintained its industrial preeminence by transitioning away from high-volume, low-value industries into higher value-added production. In the process, the number of jobs in the manufacturing sector—perhaps the most important metric from a political standpoint—has declined. U.S. manufacturing employment reached its peak of 19.4 million jobs in 1979—**fourteen years before the implementation of the North American Free Trade Agreements and 22 years before China joined the World Trade Organization**. So the downward trend in manufacturing employment, along roughly the same trajectory for 30 years, began long before the common scapegoats for manufacturing job loss even existed.

Manufacturing job loss has very little to do with trade and a lot to do with changes in technology that lead to productivity gains and changes in consumer tastes. China has also experienced a decline in manufacturing jobs—in fact, many more jobs have been lost in China's manufacturing sector—for the same reasons. According to a 2004 study published by the Conference Board, China lost 15 million manufacturing jobs between 1995 and 2002, a period during which 2 million U.S. manufacturing jobs were lost.5

The fact of the matter is that, with the exception of cyclical contractions during noted economic recessions, the U.S. manufacturing has been thriving in the global economy. Whether U.S. manufacturing will continue to thrive and even become a reliable job creator in the years ahead depends to some extent on the public policies adopted and eschewed.

No Longer "Us" vs. "Them"

During the past few decades, a truly global division of labor has emerged, presenting opportunities for specialization, collaboration, and exchange on scales once unimaginable. The confluence of falling trade and investment barriers, revolutions in communications and transportation, the opening of China to the West, the collapse of communism, and the disintegration of Cold War political barriers has spawned a highly integrated global economy with vast potential to produce greater wealth and higher living standards.

The dramatic reduction in transportation and communication costs combined with widespread liberalization of trade, finance, and political barriers are all accomplices in what has been called "the death of distance." Under the new paradigm, the factory floor is no longer contained within four walls and one roof. Instead, the factory floor spans the globe through a continuum of

[4] United Nations Industrial Development Organization, "National Accounts Main Aggregates Database, Value Added by Economic Activity," http://unstats.un.org/unsd/snaama/resQuery.asp.

[5] Yuan Jiang et al., "China's Experience with Productivity and Jobs," Conference Board Report Number R-1352-04-RR, June 2004.

production and supply chains, allowing lead firms to optimize investment and output decisions by matching production, assembly, and other functions to the locations best suited for those activities.

In the 21st century, it is inaccurate to characterize international trade as a competition between "us" and "them." Because of foreign direct investment, joint ventures, and other equity-sharing arrangements, quite often "we" are "they" and "they" are "we." Even the U.S. automobile and steel industries attest to this new reality. And as a result of the proliferation of disaggregated, transnational production and supply chains, "we" and "they" often collaborate in the same endeavor. Under the new paradigm, workers in developed and emerging countries are more likely to be coworkers than competitors. Today's global economic competition is less likely to feature "our" producers against "their" producers and more likely to feature entities that defy national identification because they are truly international in their operations, creating products and services from value-added activities in multiple countries. There is competition between supply chains, but success first demands cooperation and collaboration within supply chains (i.e., cooperation and collaboration between some of "us" and some of "them"). This new commercial reality demands policies that are welcoming of imports and foreign investment, and that minimize regulations or administrative frictions that are based on misconceptions about some vague or ill-defined "national interest."

A recent analysis from the Asian Development Bank Institute of the complex production-supply chain surrounding production of Apple's iPhone is both testament to the benefits of globalization and the latest indictment of a decrepit international trade flow accounting system that nourishes misleading trade skeptics and misinforms policy.

Following in the footsteps of a groundbreaking and widely-cited 2007 University of California-Irvine study, which disaggregated the components of a Chinese-assembled Apple iPod and assigned its constituent value to the companies and countries responsible for their production, two researchers at the Asian Development Bank Institute applied a similar analysis to the Apple iPhone. Like the UC-Irvine iPod study before it, the ADBI analysis found that just a tiny fraction of the cost of producing the iPhone is Chinese value-added. The only Chinese input is labor, which is used to assemble the components manufactured in other countries. The value of that labor accounts for $6.50 or 3.6 percent of the total cost of $178.96 to produce an iPhone (about the same percentage as the iPod). The other 96.4 percent of that total is the cost of components produced (and the labor and overhead employed to produce those components) in Japan, Germany, South Korea, the United States, and several other countries. This breakdown is very similar to that found for the iPod in 2007, and the punch lines are identical.

While firms in Japan and Germany account for the most expensive parts (and quite obviously benefit from the advent of the iPhone), most of the value of the iPhone (like the iPod) accrues to Apple, which reaps the lion's share of the approximately 100 percent markup. When iPhones sell for $399 in the United States, the difference between that retail price and the $178.96 cost of production goes to retailers, distributors, marketers, other firms in the supply chain, and to Apple, which distributes some earnings to its shareholders and retains some for research and development, supporting engineering and design jobs higher up the value chain so that the virtuous circle can continue.

Rather than appreciate how this complementary process harnesses the benefits of our globalized division of labor, some begrudge iPod and iPhone sales in the United States for adding to the bilateral trade deficit. Technically, for every $399 iPhone sold in the United States, the U.S. bilateral trade deficit with China increases by $178.96 (its full cost of production). Even though only $6.50 of that iPhone is Chinese value, under our antiquated, pre-globalization, method of tallying a nation's imports and exports, the entire $178.96 is chalked up as an import from China because that was the product's final point of assembly. According to the authors of the ADBI study, iPhones added $1.9 billion to the politically volatile U.S. trade deficit with China in 2009. Alas, this is the basis of the claim—popular among the most shameless trade critics—that America has a "high-tech" trade deficit with China.

Should we lament a trade deficit in iPhones or any other products assembled abroad, particularly when those products comprise U.S. value-added and support high-paying U.S. jobs?

U.S. factories and workers are more likely to be collaborating with Chinese factories and workers in production of the same goods than they are to be competing directly. The proliferation of vertical integration (whereby the production process is carved up and each function performed where it is most efficient to perform that function) and transnational supply chains has joined higher value-added U.S. manufacturing, design, and R&D activities with lower-value manufacturing and assembly operations in China. Though the focus is typically on American workers who are displaced by competition from China, legions of American workers and their factories, offices, and laboratories would be idled without access to complementary Chinese workers in Chinese factories. Without access to lower-cost labor in places like Shenzhen, countless ideas hatched in U.S. laboratories—which became viable commercial products that support hundreds of thousands of jobs in engineering, design, marketing, logistics, retailing, finance, accounting, and manufacturing—might never have made it beyond conception because the costs of production would have been deemed prohibitive for mass consumption. Just imagine if all of the components in the Apple iPhone had to be manufactured and assembled in the United States. Instead of $178.96 per unit, the cost of production might be multiple times that amount, and quite possibly prohibitive.

Consider how many fewer iPhones Apple would have sold; how many fewer jobs iPhone production, distribution, and sales would have supported; how many fewer young programmers would be employed designing "apps"; how much lower Apple's profits (and those of the entities in its supply chains) would have been; how much lower Apple's research and development expenditures would have been; how much smaller the markets for music and video downloads, car accessories, jogging accessories, and docking stations would be; how many fewer jobs those industries would support; and the lower profits those industries would generate. Now multiply that process by the hundreds of other similarly ubiquitous devices and gadgets: computers, hand-held video game players, Blu-Ray devices, and every other product that is designed in the United States and assembled in China from components made in the United States and elsewhere.

It is beyond question that countless U.S. jobs depend on imports from China.

The Atlantic's James Fallows characterizes the complementarity of U.S. and Chinese production sharing as following the shape of a "Smiley Curve" plotted on a chart where the production process from start to finish is measured along the horizontal axis and the value of each stage of production is measured on the vertical axis. U.S. value-added comes at the early stages—in branding, product conception, engineering, and design. Chinese value-added operations occupy the middle stages—some engineering, some manufacturing and assembly, primarily. And more U.S. value-added occurs at the end stages in logistics, retailing, and after-market servicing. Under this typical production arrangement, collaboration, not competition, is what links U.S. and Chinese workers.

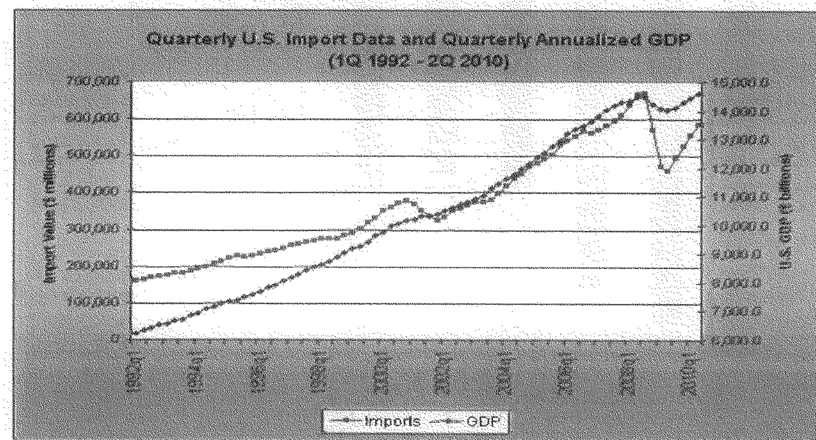
Over the past couple of centuries, economists have spoken of comparative advantage in the context of industries. In David Ricardo's telling, Portugal had a comparative advantage in wine-making and England had a comparative advantage in cloth-making. So each country would focus its productive efforts where they were most efficient, and exchange surpluses, to attain the highest level of output and consumption. Today comparative advantage can apply to functions in the supply chain. China may have a comparative advantage in electronic assembly operations vis-à-vis the United States today, the United States may have a comparative advantage in product design vis-à-vis Japan, and Japan may have a comparative advantage in component production. Instead of trading wine for cloth, the modern set-up implies a collaboration between U.S. engineers, Japanese manufacturers, and Chinese assemblers—that is, collaboration in the production of Apple iPods and similar products. But as a country's skill sets change—partly as a function of its policies—the people will become relatively more efficient in some endeavors and relatively less efficient in others.

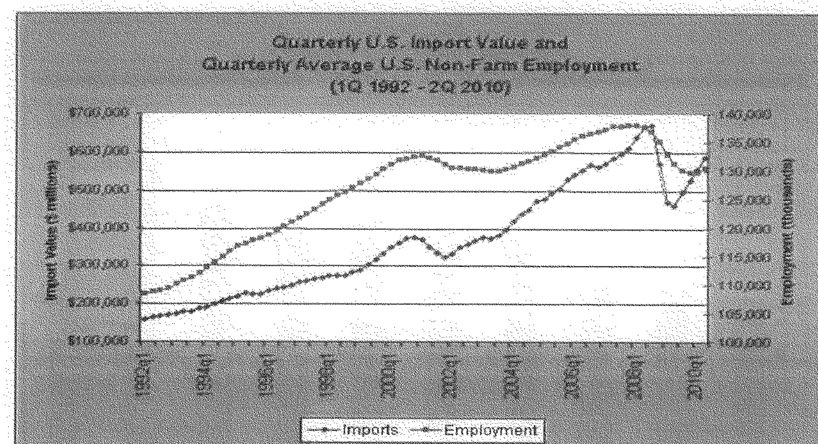
That countries are not destined to remain in their current supply chain rungs, but can ascend or descend the value-chain, as the case may be, should be motivation enough for governments, both rich and poor, and at all stages of development, to adopt the policies that are most likely to provide the greatest and highest valued-added opportunities for their people.

Imports Get an Undeservedly Bad Rap

People generally understand that exports contribute to economic growth, which is essential to job creation. But many then make the mistake of reasoning: if exports help grow the economy and create jobs, then imports must shrink the economy and cost jobs. That is the central misconception perpetrated by media every month when the Census Bureau releases the monthly trade figures. Emblematic of this kind of bad reporting is last week's story by AP Economics Writer Martin Crutsinger, who wrote: "A widening trade deficit hurts the U.S. economy. When imports outpace exports, more jobs go to foreign workers than to U.S. workers." Well, that outcome is possible, but as an ironclad law, it is an indefensible statement.

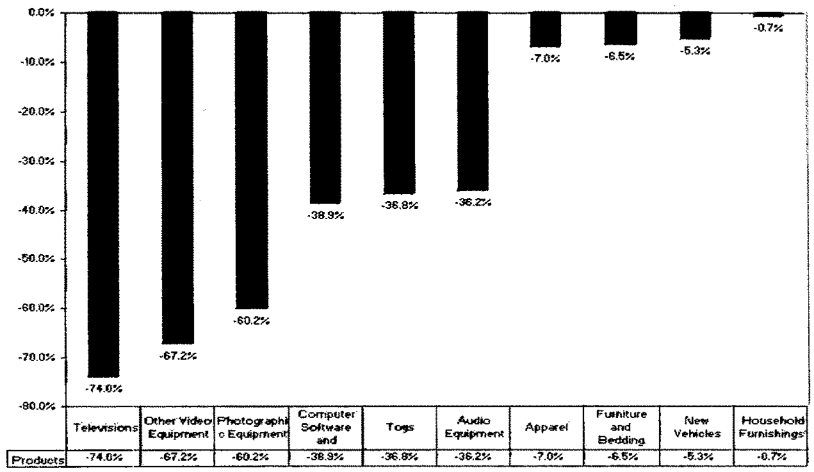
The description of global production and supply chains above is a fairly strong argument for the benefits of imports and strong evidence that imports support U.S. jobs. But imports support U.S. employment through many other channels, as well. According to the Bureau of Economic Analysis, "intermediate goods" and "capital equipment"—items purchased by producers, not consumers—accounted for more than 55 percent of the value of all U.S. imports last year. So, imports that are too often assumed to be consumer goods that come at the expense of domestic production are more often than not used as inputs for domestic production. Better and more affordable access to those imports helps reduce the costs of production, enabling producers to better compete and support U.S. jobs and wages. The 45 percent of imports that are consumer goods support U.S. jobs in logistics, transportation, wholesaling, retailing, and after-market service industries. The nearby charts show how imports move in tandem with GDP and employment.



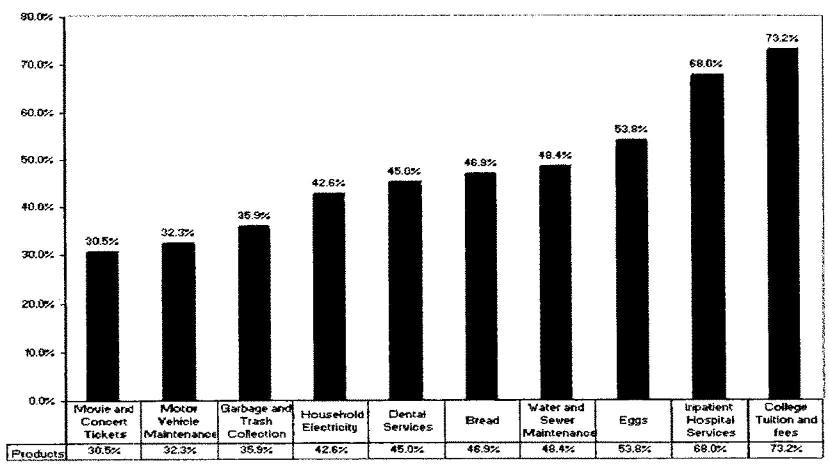


And by helping to keep prices lower and quality higher, imports allow consumers to have more resources with which to purchase other products and services or to save, both of which support more U.S. jobs. The next set of charts compares price changes over time of products that tend to be heavily traded and products and services that are generally not traded.

Price Changes of Highly-Traded Products (CPI-U)
2000-2009
Source: U.S. Bureau of Labor Statistics



Price Changes of Products and Services Less Likely to be Imported (CPI-U)
2000-2009
Source: U.S. Bureau of Labor Statistics



Moreover, when U.S. consumers and producers purchase imports, foreigners obtain dollars with which they can support U.S. jobs through their own purchase of U.S. exports or through investment in U.S. businesses.

Some of the misunderstanding can be traced to the famous National Income Identity, which expresses gross domestic product, as: Y = C + G + I + (X-M). That is, national output (Y) equals personal consumption (C) plus government spending (G) plus investment (I) plus exports (X) minus imports (M).

The expression clearly lends itself to the wrong interpretation. The minus sign preceding imports suggests a negative relationship with output. It is the reason for the oft-repeated fallacy that imports are a drag on growth. But that is the wrong conclusion.

The expression is an accounting identity, which "accounts" for all of the possible channels for disposing of our national output. That output is either consumed in the private sector (C), consumed by government (G), invested by business (I), or exported (X). The identity requires subtraction of aggregate imports because consumption, government spending, business investment, and exports all contain, in various amounts, import value. Americans consume domestic and imported products and services, the aggregate of which shows up in consumption. Likewise, government purchases include domestic and imported products and services; businesses invest in domestic and imported machines and inventory; and, exports often contain some imported intermediate components. Thus, the identity would overstate national output if it didn't make that adjustment for imports. After all, imports are not made on U.S. soil with U.S. factors of production, so they shouldn't be included in an expression of our national output.

To reiterate, it is a simple matter of accounting: as an expression of national output, the National Income Identity subtracts imports only because imports are that portion of consumption, government spending, investment, and exports that are not produced on U.S. soil with U.S. factors of production. If we did not subtract an aggregate import value, then national output would be overstated.

But this is unnecessarily confusing. Why has it not been commonplace to use notation that conveys in no uncertain terms that C and G and I and X include some amount of imports? Maybe something like this:

Y=C(d)+C(m)+G(d)+G(m)+I(d)+I(m)+X(d)+X(m)-M,

where (d) connotes domestic; (m) connotes imported; and M=C(m)+G(m)+I(m)+X(m).

Again, imports are subtracted, not because they are a drag on output, but because imports are included in the other constituent elements of the identity. I've always found it misleading that the parentheses go around X-M – which isolates the expression "net exports," but in the process can obscure the fact that imports are subtracted from the whole expression.

The National Export Initiative

In his February 2010 State of the Union address President Obama announced a goal of doubling U.S. exports in five years. That goal was soon enshrined as the "National Export Initiative," which has since become the centerpiece of the administration's trade policy agenda.

Some of the components of the NEI are eminently sensible as standalone policies. For example, efforts to clarify, simplify, and streamline U.S. export control procedures—should they succeed—are likely to reduce regulatory obstacles and spur meaningful export growth without imposing new burdens or diverting resources from elsewhere in the economy. Likewise, passage of the long-pending bilateral trade agreements with South Korea, Colombia, and Panama, and conclusion of the decade-long Doha Round of multilateral trade negotiations and the ongoing Trans-Pacific Partnership negotiations would reduce or eliminate barriers to U.S. exports in a variety of sectors. And, it would not be unreasonable to expect that the resulting increase in trade would lead to job growth—despite the anomaly of 2010 (i.e., positive economic growth, strong trade growth, but negative job growth).

But other aspects of the National Export Initiative—call them errors of omission and commission—are more troubling. The NEI presumes that the only obstacles confronting U.S. exporters are those that exclusively concern their activities as exporters. But, in fact, before they are exporters these companies are producers, and as producers they have production costs that are often inflated by dint of policy—import duties, a weak dollar, regulatory compliance costs. The NEI is silent on these significant obstacles to U.S. competitiveness at home and abroad.

According to the Bureau of Economic Analysis, "intermediate goods" and "capital equipment"—items purchased by producers, not consumers—accounted for more than 55 percent of the value of all U.S. imports last year. That fact alone makes clear that imports are crucial determinants of the profitability of U.S. producers and their capacity to compete at home and abroad. Yet the NEI commits not a word to the task of eliminating or reducing the burdens of government policies that inflate import prices and production costs.

During the decade between 2000 and 2009, the United States imposed 164 antidumping measures on a variety of products from dozens of countries. A total of 131 of those 164 measures restricted (and in most cases, still restrict) imports of intermediate goods and raw materials used by downstream U.S. producers in the production of their final products. The cases were filed and the duties imposed without any of these downstream companies having had the opportunity to make their case before the International Trade Commission that the duties would adversely affect them. Under the present antidumping statute, the administering authorities are forbidden from considering the impact on consuming industries—or the impact on the economy more broadly—when deciding whether or not to levy the duties. That is a major oversight that should have been identified as an obstacle to U.S. export competitiveness by the administration in its development of the NEI.

In January, a *Wall Street Journal* editorial featured the story of what was recently a profitable and expanding magnesium die-cast auto parts industry in the United States. The U.S. and foreign markets for these engine parts (which are lighter but stronger than the more common aluminum parts, so in high demand from auto producers looking to improve fuel efficiency) were growing. But then the sole U.S. producer of magnesium—a monopolist in Utah—brought an antidumping case against imports from China and Russia. The resulting duties drove the cost of magnesium in the United States well above the world price, and slowly but surely, the U.S. firms started to die off.6 That an industry comprised of a single producer with 370 employees can snuff out downstream industries—particularly up-and-coming industries—is costly economic policy that the NEI should be addressing.

Another concern about the NEI is that it may tempt the administration further down the slippery slope of industrial policy. Although doubling exports to $3.14 trillion by the end of 2014 would be a laudable achievement, enshrining that goal as a national imperative presents risks. "Five-Year Plans" have a way of breeding zealous devotion to goals for the sake of goals, sometimes at the expense of the process that would otherwise lay the foundation for greater and enduring success. By exhorting U.S. exporters to "win the future" and describing the imperative of "making sure we're not ceding markets, exports, and the jobs they support to other nations," the president is reinforcing an image of trade as an adversarial, zero-sum endeavor.

With over $100 billion in direct subsidies and tax credits already devoted to green technology, it is no secret that President Obama has been promoting investment in solar panel, wind harnessing, lithium ion battery, and other industries he deems crucial. Concerning those industries, the president said: "Countries like China are moving even faster...I'm not going to settle for a situation where the United States comes in second place or third place or fourth place in what will be the most important economic engine of the future."

With all due respect, how does the president know that those will be the most important economic engines of the future? By placing bets on particular industries, the administration is overriding a selective, evolutionary process that has undergirded the world's most successful innovation machine, while reducing the chances of worthy ideas, firms, and industries leading the next commercial wave. Did President Obama's predecessors anticipate the arrival of Steve Jobs, Bill Gates, or Marc Zuckerberg and the revolutionary products and services they delivered? Did Washington bureaucrats foresee the advent of specific life-extending medicines and devices, like digestible, pill-sized cameras? Had those proposing industrial policy in response to a rising Japan in the 1980s and early 1990s prevailed, much of the technology and medical advances taken for granted today never would have come to fruition.

Despite the risks and uncertainty of industrial policy, the administration seems to be getting a lot of encouragement in that direction from a wide swath of captains of industry, economics writers, and media pundits.

Policy Solutions

A serious plan to boost U.S. economic growth and hiring should start by identifying all policies, regulations, practices, and conditions that impede U.S. competitiveness, not just those obstacles that confront U.S. companies as exporters.

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[6] For more in-depth coverage of this story, see http://www.cato-at-liberty.org/death-by-antidumping/

Although trade's critics speak of a "race to the bottom," where governments compete for investment by lowering their standards—a concern unsupported by trade and investment flows—it is really more appropriate to speak of a race to the top. Governments are competing for business investment and talent, which both tend to flow to jurisdictions where the rule of law is clear and abided; where there is greater certainty to the business and political climate; where the specter of asset expropriation is negligible; where physical and administrative infrastructure is in good shape; where the local work force is productive; where there are limited physical, political, and administrative frictions; and so on. Those once-clear American advantages have atrophied.

This global competition in policy is a positive development, but we are kidding ourselves if we think that we don't have to compete and earn our share with good policies. The decisions we make now with respect to policies on immigration, education, energy, trade, entitlements, taxes, and the role of government in managing the economy will determine the number and kinds of jobs created, as well as the health, competitiveness, and relative significance of the U.S. economy in the decades ahead.

According to a survey of 13,000 business executives worldwide, conducted by the World Economic Forum, 52 countries have less burdensome regulations than the United States. Add to the fact that the United States has the highest corporate tax rate among all OECD countries, the sense that the rule of law is no longer bedrock, the business and political climates remain uncertain, asset expropriation (through torts, bankruptcy, antitrust and other mechanisms) is a real threat, the workforce doesn't have the skills required by producers in an economy at the technological fore, the regulatory environment is stifling, compliance costs are eating into the bottom lines of more and more companies, the government treats our innovators as adversaries, physical infrastructure is in disrepair, and it becomes less mysterious why U.S. businesses aren't investing and hiring in droves. Meanwhile, forward-looking governments around the world are wooing investment in R&D facilities, high-end manufacturing plants, and educated human beings with proper incentives, as U.S. policies treat those investors and skilled immigrants with contempt or indifference.

President Obama visited recently with the Chamber of Commerce and argued that he had made concessions to business by moving toward the center on tax and trade policy, and that now was the time for business to reciprocate by investing and hiring. But the president's small steps toward the center come after two years of sprinting to the left on economic policy. After ObamaCare, Dodd-Frank, taxpayer bailouts, unorthodox and legally-questionable bankruptcy procedures, subsidies for select industries, Buy American and other regulations governing how and with whom "stimulus" dollars could be spent, and the administration's tightening embrace of industrial policy, businesses want a more quiet, less intrusive, less antagonistic, predictable policy environment before they will feel comfortable investing and hiring.

In the meantime, a policy that would likely produce quick dividends would be one that reduces the administrative costs of importing. After all, most U.S. exporters—before they are exporters—are producers. And as producers they consume raw materials and other industrial inputs and components. Many of those inputs are imported or their costs are affected by the availability and prices of imports.

The president understands this. On August 11, 2010 at a White House signing ceremony, he offered the following rationale for a bill he was about to sign into law:

> The Manufacturing Enhancement Act of 2010 will create jobs, help American companies compete, and strengthen manufacturing as a key driver of our economic recovery. And here's how it works. To make their products, manufacturers – some of whom are represented here today – often have to import certain materials from other countries and pay tariffs on those materials. This legislation will reduce or eliminate some of those tariffs, which will significantly lower costs for American companies across the manufacturing landscape – from cars to chemicals; medical devices to sporting goods. And that will boost output, support good jobs here at home, and lower prices for American consumers.7

It's tough to argue with that rationale. After all, "intermediate goods" and "capital equipment" accounted for 55 percent of U.S. import value last year, which amounted to over $1 trillion in costs. U.S. tariffs and other import barriers increase the costs of production for U.S. companies, putting them at a disadvantage vis-à-vis foreign firms in the U.S. market and abroad.

But America's competitors aren't sitting still. Over the past two years, the Canadian and Mexican governments unilaterally slashed tariffs on a host of industrial inputs to reduce production cost and boost the competitiveness of their producers. Small and mid-sized businesses were reported to be enthusiastic about the tariff cuts, which will cut costs and paperwork. By 2015, the only goods subject to import duties in Canada will be supply-managed goods in the agricultural sector and some consumer products.

And in Mexico, in an effort to "reduce business operating costs, attract and retain foreign investment, raise business productivity, and provide consumers a greater variety and better quality of goods and services at competitive prices," the Mexican government initiated a plan in 2007 to unilaterally reduce tariffs on 70 percent of the items on its tariff schedule. Those 8,000 items, comprising 20 different industrial sectors, accounted for about half of all Mexican import value in 2007. When the final phase of the plan is implemented on January 1, 2013, the average industrial tariff rate in Mexico will have fallen from 10.4 percent to 4.3 percent.

Among the major differences between the U.S. tariff liberalization and those in Canada and Mexico is that the U.S. action is temporary and only applicable to industrial inputs if there is no producer interest that objects. Our bolder North American neighbors have instituted permanent liberalization across the spectrum so as to afford their producers lower costs and an operational environment of greater business certainty.

On tariffs and other reforms that could encourage business investment and hiring, U.S. policymakers have a lot to learn from the actions of our trade partners.

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[7] President Barrack Obama, The White House, Office of the Press Secretary, "Remarks by the President at the Signing of the Manufacturing Enhancement Act of 2010," August 11, 2010.

Mrs. BONO MACK. Thank you.
Mr. Crouse, 5 minutes.

STATEMENT OF JAMES CROUSE

Mr. CROUSE. Thank you for the opportunity. I am Jim Crouse with Capstone Microturbine manufacturing in Chatsworth, California.

A microturbine is a small combustion turbine used to generate electricity at the location of an end-use customer. Capstone turbines are used as range extenders in hybrid electric vehicles as well as stationary power for a host of customers from hotels to hospitals to industrial customers on a global basis. As the leading manufacturer of microturbine energy systems, Capstone has valuable insight into what it takes to compete globally in a growing industry characterized by technological change and innovation.

Although we were invited to testify on behalf of the chairwoman and ranking member, our power generation systems can be found in almost every State in the United States. Customers use our systems mainly to save money by increasing their energy efficiency. By utilizing exhaust from the turbine to make hot or chilled water, businesses can cut their energy costs by up to 50 percent. The use of both electricity and thermal energy simultaneously from a single fuel source is called combined heat and power, or cogeneration. Some of our systems also provide cooling, known as CCHP.

Microturbines produce very little criteria pollutants as well as very little greenhouse gases. Capstone's unique technology makes clean, efficient combustion possible. We are able to use fossil fuels including abundant natural gas in a clean, efficient manner. Other systems that we manufacture burn biogas or methane from landfills or digesters. In these applications, we are renewable energy.

Our customers can be found all over the world in a variety of industries. Oil and gas companies use our product to power their installations, oftentimes in remote locations. Oil and gas customers prize reliability, and a microturbine is highly reliable since it has only one moving part, does not require lubrication or coolants and has only one maintenance interval per year. Additionally, generating power with microturbines can eliminate the need for air permitting as we design our product to meet the most stringent air standards in the world: California Air Resources Board standards.

Our CCHP and CHP customers typically are commercial businesses such as industrial plants, hotels, hospitals and retailers that use our product to increase their efficiency and reduce their cost, making them more competitive in both a local and global market. Microturbines are installed in hybrid buses, trucks, and we have recently been installing microturbines in marine applications both here in the United States and in Europe.

Capstone employers approximately 200 highly skilled American workers in its manufacturing facility in Los Angeles, and with over 120 patents, Capstone is a technology innovator. We produce about 80 percent of the world's microturbines. Most of the balance is also manufactured in the United States by Ingersoll Rand. This is not a product that we are buying from China. This is a product we are selling to China. We have a good and strong business in China.

We export because of a variety of reasons. That is where the markets are. We sell in over 50 countries both developing and developed countries on six continents. In many cases, overseas markets are stronger than our domestic markets. Europe is a particularly strong market for Capstone, in part because of feed-in tariffs that exist there.

Capstone Turbine sees value in adopting long-term energy policy here in the United States. We believe that a strong domestic policy will only strengthen our export business. According to Oak Ridge Laboratories, the CHP could provide 20 percent of the U.S. generating capacity by 2030, generating $234 billion in new investment and create 1 million highly skilled jobs. CO2 emissions could be cut by more than 800 million tons per year, the equivalent of taking half of the U.S. passenger fleets off the road.

Energy efficiency combined heat and power makes sense regardless of where you stand on climate change. Efficiency is good. Saving money on your energy is good. It makes us more competitive.

Capstone Turbine has received several grants in research and development from the Department of Energy. However, lack of long-term energy policy that promotes energy efficiency and distributed generation in combined heat and power—sorry.

Mrs. BONO MACK. You can complete your sentence.

Mr. CROUSE. So Capstone strongly believes that a strong domestic policy is important. We have a bill currently that was introduced by Linda Sanchez, and would love to see that bill move forward to grow our business domestically, to see our international business grow as well. The two are tied together, domestic and international.

[The prepared statement of Mr. Crouse follows:]

Testimony of Capstone Turbine Corporation

"Made in America: Increasing Jobs through Exports and Trade"

U.S. House of Representatives

Subcommittee on Commerce, Manufacturing and Trade

March 16, 2011

Submitted by James Crouse

Capstone Turbine Corporation

Executive Vice President, Sales and Marketing

Summary

Capstone Turbine Corporation, headquartered in Chatsworth, CA, is the world's leading manufacturer of microturbine energy systems. A microturbine is a small combustion turbine used to generate electricity at the location of the end use customer. Capstone microturbines are also used as range extenders for hybrid electric vehicles. Customers use our systems to save money through reducing their energy usage. Another benefit of microturbines is that they produce very little emissions. Capstone microturbines can run on fossil fuels, including abundant natural gas, in a clean and efficient manner, as well as biogas, diesel, biodiesel, propane and kerosene.

Capstone Turbine employs approximately 200 highly skilled American workers in our manufacturing facilities outside of Los Angeles. We produce approximately 80 percent of the world's microturbines. Most of the balance is also manufactured in the United States, making microturbines a unique American manufacturing success story. This is not a product that we are buying from China; China is buying it from us.

We sell 95 percent of our product outside of California, and 70 percent of our product overseas. We believe that the key to increasing exports is by strengthening the domestic market for clean and efficient energy technologies. A strong domestic market would enable newer companies like ours to increase production capacity that will make them more competitive overseas. Capstone Turbine sees value in adopting a long-term energy policy in the United States as a means of not only protecting our environment, but also as a way to decrease reliance on foreign oil while creating American jobs. Simultaneously the Administration and

Congress should finalize the pending Free Trade Agreements and initiate new FTAs with critical markets such as Brazil.

Introduction

Capstone Turbine Corporation respectfully submits this testimony to the "Made in America: Increasing Jobs through Exports and Trade" hearing of the House Subcommittee on Commerce, Manufacturing and Trade. As the leading global manufacturer of microturbine energy systems, Capstone Turbine has valuable insight into what it takes to compete globally in a growing industry characterized by technological change and innovation.

Although we were invited to testify on behalf of the Chairwoman and Ranking Member, our power generation systems can be found in nearly every state represented by the Members of the Subcommittee.

What is a Microturbine?

A microturbine is a small combustion turbine used to generate electricity at the location of the end use customer, rather than at a central utility power station. Generating power at the user's location prevents electricity losses over power lines, while providing the user with reliable energy even in the case of blackouts or brownouts. Capstone microturbines are also used as range extenders for hybrid electric vehicles. In this application the microturbine uses natural gas or diesel fuel to extend the operating range of electric cars, buses, trucks and boats with considerably lower emissions than other range extending products.

Customers use our systems for a variety of reasons. The chief reason is to save money through reducing their energy usage. By utilizing the exhaust from the microturbine to make hot or cold water, businesses can cut their energy costs up to 50%. The use of both electric and thermal energy simultaneously from a single fuel source is called combined heat and power (CHP). Some of our systems also provide cooling, known as combined cooling heat and power (CCHP).

Another benefit of microturbines is that they produce very little emissions, both in terms of criteria pollution and greenhouse gases. Capstone's unique technology makes clean and efficient combustion possible. In so doing we are able to use fossil fuels, including abundant natural gas, in a clean and efficient manner. Other systems burn biogas, which is renewable and creates no greenhouse gases. Microturbines are so fuel-flexible that they can cleanly and efficiently burn diesel, kerosene and propane as well. Essentially, we use whatever fuel the customer has available to provide a local source of reliable power and heat. Capstone microturbines utilize our patented air bearing technology that requires no lubrication and no coolants. As a result, the microturbine requires very little maintenance compared with a reciprocating engine.

Who Uses Microturbines?

Our customers can be found all over the world in a variety of industries. We classify our four primary markets as resource recovery which includes the oil and gas industry as well as renewable biogas; energy efficiency, or combined heat and power; secure power, such as hospitals or data centers; and hybrid electric vehicles. Microturbines provide value to customers in each of these markets for different reasons. For example:

- Oil & Gas: In the oil and gas sector, companies use our product to power their installations, oftentimes in remote locations. The oil and gas industry prizes reliability and a microturbine is highly reliable since it has only one moving part, does not require lubrication or coolants, and has only one maintenance interval per year while a traditional engine generator can have hundreds. Additionally, generating power with microturbines can eliminate their need for air permitting due to our low emissions.
- Energy Efficiency: Our CHP and CCHP customers are typically commercial businesses such as office buildings, retailers, and hotels. These users adopt CHP in order to save money on energy costs. By increasing their efficiency through making both electric and thermal energy with a single fuel, businesses can save considerable money.
- Renewable Power: We provide renewable energy to landfills, wastewater treatment facilities, and farms. By burning methane from waste we can turn a very harmful gas into clean power and provide a revenue stream to the customer.
- Mobile Products: Microturbines can be installed on buses, trucks, and marine craft to serve as a battery charger in a hybrid configuration, allowing the vehicle a longer range on battery power. When the onboard batteries get depleted, the microturbines automatically turn on to re-charge them.

American Manufacturing

Capstone Turbine employs approximately 200 highly skilled American workers in its manufacturing facilities outside of Los Angeles. In addition to being an energy company we are also a technology company. With over 120 patents, Capstone Turbine has used innovation to develop a technology that did not exist prior to our founding. We produce approximately 80 percent of the world's microturbines. Most of the balance is also manufactured in the United States, making microturbines a unique American manufacturing success story. This is not a product that we are buying from China; China is buying it from us.

Capstone Turbine is a California company that ships 95 percent of its product out of the state, and 70 percent of its product overseas. We are a small but a growing company – our last year's revenues were approximately $65 million, but we have grown 40 percent a year, year-on-year, for three straight years. We anticipate a similar growth rate for the current year.

Foreign Markets Present More Opportunities than the Domestic Market

We export because, for a variety of reasons, that is where the markets are. Our company would simply not survive without foreign buyers. We sell in over 50 countries, both developed and developing, on six continents. In many cases overseas markets are stronger than our home market in America. Our company and the microturbine product are new relative to traditional power generation products such as engine generators, many of which are produced cheaply overseas. Thus the first cost of our product is much higher than it is for an engine generator, although our lifecycle cost is oftentimes lower due to the microturbine's need for less maintenance. The only way to bring down the cost of the product over time is to increase production volumes. A strong domestic market for alternative energy would allow Capstone Turbine to achieve economies of scale in its manufacturing process.

Europe is a particularly strong market for Capstone Turbine because government policies there provide market pull for clean and efficient power. Many European countries have adopted feed-in tariffs, which allow the owners of clean energy systems to sell their power to the electricity grid, providing another revenue stream for the project that shortens payback. These policies also have the benefit of being long-term, thereby sending customers and lending institutions a clear signal that enables them to make buying and financing decisions with confidence.

The United States Needs a Long-Term Energy Policy

Capstone Turbine sees value in adopting long-term energy policy in the United States as a means of not only protecting our environment, but also as a way to decrease reliance on foreign oil while creating American jobs. The current system in America is a patchwork of policies and regulations that make certain areas viable for distributed generation and others much less viable. There is little policy support for energy efficiency and combined heat and power despite the tremendous value to society and the economy. In 2008, the Oak Ridge National Laboratory released a report that said a large-scale expansion of CHP could provide 20% of the U.S. generating capacity by 2030, generating $234 billion in new investment and create nearly 1 million highly-skilled, technical jobs in America. Environmentally, the United States can expect a reduction of CO2 emissions by more than 800 million tons per year, the equivalent of taking more than half the nation's current passenger vehicles off the road, with such an expansion. Energy efficiency combined heat and power makes sense regardless of where one stand's on climate change. Making American businesses more efficient allows them to decrease operating costs and be more competitive in the marketplace.

A primary example of how energy efficient microturbines can deliver economic savings is our combined cooling heating and power plant installed at the Ronald Reagan Library in Simi Valley, CA. When the library opened the Air Force One pavilion, the extra electrical demand would have required the utility company to build another transmission line to the building costing millions of dollars. Instead, the library opted to build its own power plant with sixteen microturbines running on natural gas, which also produce cooling and provide the building's hot water in a single system. As a result, the library saves hundreds of thousands of dollars annually in energy costs.

Recent discoveries of natural gas in America will be able to provide our country with an abundant source of domestic energy at stable prices for a long time to come. The oil and gas industry is our largest market, and our company is growing as more and more oil and gas companies deploy microturbines to provide reliable power at their production and transmission sites. Recently, Capstone Turbine sold its largest-ever order in the United States to a major American producer. In total, nine megawatts of microturbines will provide clean and green prime power to central processing facilities and metering stations at remote well sites in the Eagle Ford Shale play in south Texas. The microturbines, fueled by pipeline quality gas, will produce electricity to provide all power to the onsite equipment, including heaters, pump motors, circulation pumps and distribution panels.

Capstone Turbine would like to make the subcommittee aware of HR 6515, "The American Microturbine Manufacturing and Clean Energy Deployment Act of 2010." This bill was introduced by Congresswoman Linda Sanchez during the last Congress. The bill sought to give microturbines parity in the tax code with other clean energy technologies by raising the investment tax credit to 30 percent and removing the existing $200 per kilowatt cap. By limiting the total expenditures to $250 million until the expiration of the credit in 2016, the bill provided an economical means of creating American jobs while installing clean energy and stimulating exports. As Congresswoman Sanchez stated in her floor speech, "Over 90 percent of the world's microturbines are manufactured right here in the United States by American workers. However, most of these systems are exported because our own incentive structure has failed to encourage domestic adoption. My bill would strengthen a homegrown, domestic industry that will create good jobs while giving us cleaner air."

Helpful Forms of U.S. Government Support

Capstone Turbine has received several research and development grants from the Department of Energy. Current programs include developing a microturbine capable of operation on syngas made from agricultural waste, and developing a larger, more efficient microturbine. Our 200 kilowatt microturbine, now in full scale commercial production and a significant revenue contributor for our company, was also developed with assistance from the DOE. However, the lack of a long-term energy policy that promotes energy efficient distributed generation such as combined heat and power has meant that the United States is not a strong market for our product. We feel that there is a policy disconnect for clean energy such that

R&D funding is available and paid for by American taxpayers, but that foreign countries receive disproportional benefit when the clean energy is installed there rather than here at home.

As a small company, we have made use of the export promotion programs of the U.S. Department of Commerce's International Trade Administration (ITA). In particular, Capstone Turbine has benefited from participation in trade missions overseas, such as Secretary Locke's 2010 trade mission to China and Indonesia. Having the support of the U.S. government carries significant weight in markets such as China where many of our customers are owned or controlled by the Chinese government. ITA's Foreign Commercial Service has been effective in setting up meetings with potential distributors and customers.

As a manufacturer, Capstone Turbine has been negatively impacted by import tariffs imposed on our equipment entering certain markets. We urge the Administration and the Congress to finalize the Free Trade Agreements with Colombia, South Korea and Panama. Colombia and South Korea have enormous potential for Capstone Turbine. Lowering or eliminating tariffs would drive more business in those markets. We also encourage the Administration and Congress to embark on new FTAs with markets of critical significance such as Brazil. Brazil is making considerable investments in power generation to improve grid stability and provide power throughout the country. Brazilian firms are in need of reliable power and natural gas is becoming abundant and cost-effective, making Brazil an ideal market for Capstone Turbine. However, the current tariff structure adds considerable cost to our projects in Brazil that have to be passed to the customer, causing many projects to not go forward.

Conclusion

Capstone Turbine thanks the subcommittee for the invitation to provide this testimony. We feel strongly that the key to increasing exports and making American energy companies globally competitive is to set long-term domestic energy policy. The United States should be a leader in the field of clean energy. With the dramatic rise of China as both a producer and a consumer of alternative energy, the United States must act quickly and decisively to regain global leadership. Homegrown American technologies such as microturbines can make significant social and economic contributions but need a level playing field with other energy sources.

Mrs. BONO MACK. Thank you.

The chair will recognize herself for the first 5 minutes of questioning, and I will begin by commenting on your testimony, Mr. Crouse. As a resident of California, almost lifelong—we moved from Cleveland before I was 2 but I don't admit that very often—but it surprises me. California, you mentioned CARB and what we live under, the most stringent regulations of any State, I would say, in the country, yet you only sell 5 percent of your total sales in California, and to me, that leads really to my question, which is for Mr. Ikenson.

In your testimony, you mentioned that you are frustrated that NEI is absolutely doing nothing to deal with the burdens on business. I think you were trying to get into that when you ran out of time. Can you go into a little bit more? Your exact words are: "The NEI is silent on the significant obstacles to U.S. competitiveness at home and abroad." Can you expand?

Mr. IKENSON. Sure. Well, in fairness, it is called the National Export Initiative, so limiting the concern to exports is, I suppose, understandable, but it really should be broadened. I wish it were called the National Economic Initiative in which—I mean, if we are really concerned about our exporters, we need to recognize first that they are producers, and as producers, they rely on imported raw materials that account for a lot of the costs, and they also are confronted with lots of regulations. Those burdens are immense. Having a free trade agreement with Korea is an excellent idea. It is clearly going to lead to export growth, but cutting a tariff, a foreign tariff, by 5 percent is a good thing but what about cutting your costs, your domestic costs by 10 percent because the regulatory burden has subsided.

There was a survey of about 13,000 business executives that was conducted by the World Economic Forum recently, and it found that there were 52 countries that have less burdensome regulations than the United States, and we operate in a global economy here. Governments, enterprises are competing for investment, capital investment and investment in human talent. There is a competition in policy, and I think we are sort of missing the boat here. We have the highest corporate tax rate in the world. We have the regulatory burdens. Infrastructure is in disrepair. We don't have a policy that welcomes high-skilled immigrants.

Mrs. BONO MACK. Let me just jump in here if I can. I know in your written testimony you write that the U.S. has the highest corporate tax rate among all OECD countries. How would you recommend reforming corporate taxes?

Mr. IKENSON. Well, I am not really an expert in the tax field, but there has been a lot of tax competition globally over the past decade or so. We need to streamline the tax system. A lot of U.S. companies that are operating abroad, some of them don't want to repatriate their profits because of the corporate tax code, and these companies, in my view, are unfairly demonized as either Benedict Arnold companies or companies that aren't helping the U.S. economy. Well, you can incentivize the return of those investments to create productive facilities in the United States and to hire by changing the tax code. I am not expert on how to do that but there are plenty of others at CATO and maybe even at this table who could help you.

Mrs. BONO MACK. I just like to note that you pointed it out, so that is good enough to me. But also in your testimony, you said something that I think we as Members of Congress feel very often at home, and you talk about the American people, the sentiment that they just don't get it and you spoke a little bit about in your verbal testimony, that they think imports bad, exports good, and then you talked a lot about iPhone, and I just whipped off the back cover of mine. You know, Apple is pretty smart that they do say designed by Apple in wonderful California—I added a couple words there—but assembled in China. And perhaps they in their own way could help by saying—it is a mutt of a product.

Mr. IKENSON. Right.

Mrs. BONO MACK. It is assembled everywhere, and I think that could help. Can you explain? Do you think the American people would begin to understand? And I think about, I have a brother who is an engineer. He has worked for Hyundai and Kia and all sorts of car companies, and he has an American job, he is an engineer. Can you speak of why the American people don't quite understand that?

Mr. IKENSON. Yes, and I think that the media presents fairly simplistic accountings of what the trade deficit means. We hear about the trade deficit on a monthly basis, and it is always reported that imports are bad and we are going to lose jobs. There was a report last week that imports always mean that foreigners are—when imports outpace exports, foreigners add more jobs than are added in the United States. I think that is not true. I mean, lots of jobs rely on imports.

And to get to the technical aspect, you flipped over your iPhone. Pascal Lamy, who is the chairman of the WTO, understands that people are misled by these trade statistics. These trade statistics are reflective of a bygone era. We now live in this age of globalization that we need to break out the constituent elements of the value, and he is sort of leading a charge to try to do that so people say hey, this import in fact even though it is all attributed as an import from China, it is actually supporting, you know, 10,000 U.S. jobs because of the patents or the high-end manufacturing that happened here.

Mrs. BONO MACK. Well, thank you, and I am down to my last 15 seconds. Let me just jump to Mr. Holleyman.

Why do developed countries such as the United States and France still have piracy rates of 20 to 40 percent, respectively, and how much can Congress do and how much really ought to be technologically driven?

Mr. HOLLEYMAN. Well, we certainly think the thing Congress can do is to make sure that we have the right laws on the books, and I think there are some additional things we can do here in the United States. There is the use of trade pressure, and I think I would put France very high on that list. It has the fourth highest piracy losses in the world, and the U.S. government should be pressing that issue. Technological measures will certainly help but they won't solve the problem and so we need to keep sort of one step ahead of the pace. In the United States, I think one of the best signals would be ensuring that as the U.S. government is required to use legal software, that federal contractors are required to do that as well. That would be the next big step that would be a great thing to take to France and to China and other countries and get them to do that.

Mrs. BONO MACK. Thank you. My time is expired. I would recognize the ranking member, Mr. Butterfield, for his 5 minutes.

Mr. BUTTERFIELD. I thank the chairman.

Let me go to you, Mr. Crouse, if I can. Again, thank you for your presence today. Mr. Crouse, recognizing export promotion as a priority, President Obama's 2012 budget increases resources for the ITA, particularly for the commercial service. Meanwhile, others have sought to impose severe cuts to export promotion, not believing it worth the cost. Mr. Crouse, Capstone, I am told, has participated in several trade missions. Would you say they were worth the cost to you as the exporter?

Mr. CROUSE. Yes, definitely. We participated, as you said, in several trade missions, and it has resulted in new business for us. We recently in the last couple weeks received an order out of Tunisia after attending a trade mission in North Africa a year ago or so. The Department of Commerce, by the way, is one of the most professional government organizations I have ever worked with. It is a pleasure to work with them, and we plan to continue doing so.

Mr. BUTTERFIELD. Please tell me in what ways did the support of the Federal Government allow Capstone to export goods to new markets it otherwise might not have been able to do?

Mr. CROUSE. We used the gold key service that we are able to use in-country resources to screen potential distributors or customers prior to arriving so that when we get there, we already have meetings set up and we are much more efficient and able to streamline our sales process and partner process. It is a big help.

Mr. BUTTERFIELD. In your work with ITA, have you had an occasion to encounter U.S. trade professionals that were stationed abroad?

Mr. CROUSE. Yes, we have.

Mr. BUTTERFIELD. And did you find them to be reasonably helpful to you and your company?

Mr. CROUSE. Yes, both U.S. employees that were there working internationally as well as some of the domestic or locals that they have working in the offices there have always been very helpful to us.

Mr. BUTTERFIELD. The Republican spending plan that passed the House, we call it H.R. 1, would prevent those trade professionals from being available when and where companies such as yours could use their help to complete sales and to generate jobs back home. Mr. Crouse, is it correct that on these trade missions that you have traveled that you pay your own way, you pay for your hotel room and for your food?

Mr. CROUSE. Yes, we pay our own way.

Mr. BUTTERFIELD. My final question. Today, Google is the global leader in Internet search. It is worth hundreds of billions of dollars. It employs thousands and thousands around the world including here in our country, and it is so well known and used that the company's name is now a verb. The idea that led to Google was originally funded in the mid-1990s by the National Science Foundation, and let us not forget that the Internet itself originated with the Federal Government and its development was pushed along by NSF in the 1980s when it sought to give researchers across the country a way to access its supercomputing resources. Today, electric cars and iPhones and other high-tech gadgets that we rely on daily are powered by lithium ion batteries. The development of this type of battery is a result of federally funded materials research at the University of Texas in the 1980s. These are just a few examples showing that the federal investments now in R&D can lead to innovative, high-value products from the private sector well into the future. It also shows that the Federal Government can be, is and must be an engine for private sector growth, and nowhere else is that more true than with respect to developing new energy technologies.

In your testimony, you also note, Mr. Crouse, that your company has received several R&D grants from the Department of Energy. In the remaining minute, can you please tell me a little bit more about those grants? For example, can you describe the research Capstone has done or is now doing and how that research relates to the growth of your business?

Mr. CROUSE. Certainly. Capstone was founded 20 years ago, and had DOE funding as well as funding from Ford and Southern California Edison to develop a microturbine for hybrid electric vehicles. Our turbine is more efficient than traditional turbines, in part because of the funding and the research that we did in cooperation with the government as well as other private companies. Today we have several programs that we are working on—a flexible fuel microturbine that will run on hydrogen. We are also working on a more efficient turbine that will increase our efficiency in the range of 45 percent. And those programs combine government dollars with private dollars, our own dollar and our investors' dollars, to develop new technologies and products.

Mr. BUTTERFIELD. Mr. Crouse, thank you very much for answering those questions. I wish you well as you continue to grow your business.

Mr. CROUSE. Thank you.

Mr. BUTTERFIELD. This Congress wants to be an ally, not an obstacle, so thank you very much.

Mrs. BONO MACK. I thank the gentleman. The chair recognizes Mr. Pompeo of Kansas for his 5 minutes.

Mr. POMPEO. Thank you, Madam Chairman.

Welcome to everyone here this morning. A special welcome to Mr. Pelton, a constituent, and leader of a company with 8,000 employees in my home district. Thanks for all of the hard work from you and your team in these challenging economic times. I know that a group of witnesses that came to Washington, D.C., before was excoriated for having traveled in general aviation aircraft. I want to go on the record hoping everyone in this room flew here today on a general aviation aircraft built in Wichita, Kansas.

Mr. Pelton, you talked about export controls. Can you give me an example of a special mission aircraft as some place where the government got in the way of helping you make a sale in a foreign country for a product that didn't present any national security risks?

Mr. PELTON. Congressman Pompeo, thank you for inviting me. There are numerous examples. I can give you one today that is right in front of that actually kind of dovetails into the discussion earlier this morning dealing with Panama. The government of Panama is interested in our brand-new CJ–4, which we just certified last year. For us to even have the discussion with the Panama government, I have to apply for a marketing license to go down there to have the discussion. Now, here is the interesting part about that. I don't know what they are interested in, so when I apply for the license, I have to decide are they looking for a VIP airplane, are they looking for an airplane that may have a camera on it, it may have a flare on it, it may have some sort of med-evac, and I have to guess because I haven't been able to have contact with the customer in Panama to really understand because I have to have this marketing license. So I have to go get the marketing license. Then once I have the discussion, which could take 6 to 9 months to get that license, so if the avenue is still open to my competitors internationally who don't have to go through those restrictions having gone down there and swept the deal away from me, I will have to find out exactly what they need on the airplane and I will have to come back and work with potentially three different departments to get the licenses necessary for whatever equipment may be installed. It could be Commerce, it could be State and it could be Defense, depending on what the item is. Many of the items that are on the restricted list are really outdated and not that of national security or technically one that we should be worried about as a country, but I will have to continue to go through that process, continue to apply, may even be rejected along the way, and then in the end after the product is delivered to be able to support that product down there if it has been determined that there is a component as simple as a camera that gets identified as ITAR. I have to in any support of that airplane go through licensing to be able to keep that airplane working properly and keep the customer's satisfaction that they demand. So it is a very, very onerous process for product that is essentially getting delivered with nothing that we should be concerned about from a national security standpoint.

Mr. POMPEO. Thanks. Are there a couple quick hits that maybe anybody on the panel, a couple quick things that Congress could do? We talked about these regulatory issues. Are there a couple rifle shots where we could when we have got unemployment where it is today where we could really find bipartisan support to get something down and move the ball forward?

Mr. PELTON. Before any of my colleagues here respond, I think there are two quick hits that were discussed. The research and development tax credit needs to be made permanent. That provides the high-tech engineering jobs that this country was founded on so we don't become a service industry, and I also believe that while it has been lightly touched on, the corporate tax rate, this is a fantastic country that is number one in everything and I hope we are not going to be number one in corporate tax rates, and if you can find a way to reduce the corporate tax rates, I can assure you that the manufacturers in this country can offset that revenue with new jobs immediately.

Mr. POMPEO. Thank you. Mr. Murphy?

Mr. MURPHY. If I could just add to the tax comment there, unfortunately we do seem to be on track to have the highest corporate tax rate in the world if Japan moves forward and lowers theirs. But often there is a comment made in response to that, that many companies have exclusions that allow them to pay much less. I would just mention a study done by KPMG. They have an index that they do called the total tax index, which looks at what companies are actually paying, and according to this index, companies and operations of companies in Canada, in the Netherlands and many other countries are often paying 20 to 40 percent less in taxes than production in the United States is, and this is something that is—those are huge numbers. That makes a significant difference. You know, the title of the hearing is about making it in America. Companies have to take—that is something that is very much on their radar as they think about where they are going to be investing and hiring.

Mr. POMPEO. I appreciate that. Mr. Holleyman, did you have something you wanted to say?

Mr. HOLLEYMAN. I will say that 60 cents of every dollar spent around the world on software comes back to U.S.-based companies, so every single bilateral discussion by any member of this committee or the Administration should raise the issues around IP theft.

Mr. POMPEO. Great. Thank you. My time is up. Thank you.

Mrs. BONO MACK. I thank the gentleman. Mr. Gonzalez, 5 minutes for your questions.

Mr. GONZALEZ. Thank you very much, Madam Chairwoman.

Mr. Holleyman, in your testimony—I am trying to see if I can find it quickly—nearly four out of five PC programs in China, 79 percent, are not paid for. What is that figure for the United States?

Mr. HOLLEYMAN. For the——

Mr. GONZALEZ. I just want to know the extent of the problem.

Mr. HOLLEYMAN. It is just the reverse, so essentially 80 percent of the software in China is not paid for. In the United States, 80 percent of the software is paid for.

Mr. GONZALEZ. And if you will just kind of walk me through why is that, and I mean, I know you are going to assume that Members of Congress are going to understand software and everything else, but I assure you, it is not necessarily a Member of Congress. We use programs. We use things that are downloaded and so on. But technically, if you just walk me through, tell me how something in the United States or in China is basically acquired illegally and it continues obviously spiraling uncontrollably in places like China.

Mr. HOLLEYMAN. Well, I will give you a great example. I will focus on the business sector because that is where the biggest opportunity is to change behavior quickly. What happened in a hypothetical, let us say China, the 80 percent piracy rate could be a business in China is operating and they have 100 computers but they have only paid for the software for 20 of their computers, and they are internally duplicating for all the rest of their operations. Or they may be 100 percent illegal because they have used an illegal Office program or an illegal operating system. So they have just internally duplicated it, which is simple to do. There are no effective penalties against it. And the big thing that we are trying to do in China, which is really what the bilateral discussion is, is really twofold. One, to get the Chinese government to ensure that when it uses software that it is using only legal software, and secondly, to ensure that when Chinese state-owned enterprises use software, that they are using only legal software. There are simple ways of making sure that that is done, but unfortunately, in rapid growth markets like China, we are seeing a dramatic lag in the use of legal software, and what is happening is that because the market is growing so fast, the dollar value of that is skyrocketing year over year.

And this goes much more broadly. It is not just the software impact but that is a lower cost of doing business for any enterprise in a high-piracy market, and any constituent of yours who is using software, which is most every business, if they have a competitor in a country with a high piracy rate, the U.S. company has a higher cost of doing business than their competitor in the area of tool production of software.

Mr. GONZALEZ. Now, in the business environment, and I don't want to say anything that could be controversial. I am trying to contrast the situation in the United States and that in China, and why it is viewed with some lax attitude of maybe not seeing anything wrong with utilizing your software without having to pay, obviously as we said, for the 100 computers as opposed to the 20. But in the United States, it is an environment, is it a business sense, is it certain human behavior? Is it enforcement? What is that combination that results in 30 percent or less or whatever it is.

Mr. HOLLEYMAN. Twenty percent in the United States.

Mr. GONZALEZ. Twenty percent in the United States as opposed to 80 percent in China.

Mr. HOLLEYMAN. By the way, I think 20 percent is too high and so we are pressing to get it down further in the United States. It is really two things. I mean, one, we have constitutional underpinnings for intellectual property in this country and we have the toughest civil laws on the books and that provides an effective deterrent, particularly against businesses that would otherwise use illegal software. It is just not worth the risk and the cost. And secondly, I think that is also why the software industry has grown so well out of this country is we began with a stronger market both size-wise but in terms of legal protection. In a country like China, there are few effective civil remedies. There are no criminal penalties whatsoever against use of pirated software within a corporate environment. And finally, there just isn't any deterrents in the marketplace that are effective and that is why it really has to be a high-level, bilateral economic discussion.

Mr. GONZALEZ. Thank you very much, Mr. Holleyman.

Mr. HOLLEYMAN. Thank you.

Mr. GONZALEZ. I yield back the balance of my time, Madam Chairman.

Mrs. BONO MACK. Thank you, Mr. Gonzalez. I recognize Mr. Lance of New Jersey for his 5 minutes.

Mr. LANCE. Thank you, Madam Chair, and good afternoon to you all.

Following up on that, and I guess to Mr. Holleyman, is it better to have bilateral discussions on this issue as opposed to the WTO, or it is a combination?

Mr. HOLLEYMAN. Certainly, Mr. Lance, is it a combination, but I think that in this case, the most effective mechanism is for the bilateral discussion, and when Members of Congress speak, as they have, on this issue and when the President of the United States directly talks about software enterprise legalization to President Hu Jintao, I think that we have a lot farther to go to see the results, but to me, it takes that type of direct engagement.

Mr. LANCE. And I am sure you follow this very closely, the recent meetings here in Washington between the two presidents. Do you think that that was at all helpful or do you think we have to do more?

Mr. HOLLEYMAN. I think from a U.S. perspective, they were very helpful in raising it to the highest level on the bilateral relationship with China that we have ever seen. On the China level, have my companies seen any increased sales as a result of those commitments? No. I hope they will come but they have not, and I need to be blunt about it including to the U.S. government. So the U.S. side is working hard but we have to ultimately test it by results, do we see increased sales, not just commitments.

Mr. LANCE. Well, thank you. This is very helpful. Obviously, we respect what the Administration is doing but we need to see results and not just levels of talks, even if they are at the highest levels.

To Mr. Ikenson, yesterday the full committee passed out of its jurisdiction an issue regarding net neutrality, and I am sure you are aware of that. What is your position regarding the FCC's recently announced net neutrality regulations?

Mr. IKENSON. That is an area that I am absolutely uninvolved with, but I can tell you that CATO Institute institutionally and our experts that deal with communications issues like that, we are opposed to it.

Mr. LANCE. Thank you.

And then back to the issue of corporate taxation, obviously I am in agreement with many of my colleagues that the rate has to be lowered in the United States to remain competitive. To anybody on the panel who might be knowledgeable in this area, I am also concerned about the repatriation of profits from abroad. Perhaps to Mr. Murphy, your thoughts on that.

Mr. MURPHY. Yes, and it is unfortunate that it has become commonplace from a number of political leaders to hear the line that our tax system actually incentivizes investment overseas when in fact what they are describing is our system of worldwide taxation, which is unique practically in the industrialized world, and the deferral that is allowed on income earned overseas is the fact that deferral exists only partly levels the playing field for those U.S. companies. This is an issue that has been brewing for a long time as a competitive challenge for U.S. industry.

Mr. LANCE. My bottom line is, we need to create more American jobs, and if we can bring funds from abroad that will create more American jobs, that is what I favor, and I know there is a lot of talk regarding this but I want to get to the bottom so we can create more American jobs, particularly more American manufacturing jobs.

Mr. MURPHY. The chamber strongly supports allowing repatriation of those funds, which was done several years ago successfully and we think it should be done again.

Mr. LANCE. Is there any other member of the panel who would like to comment on that?

I thank you very much, Madam Chair. I yield back the balance of my time.

Mrs. BONO MACK. I thank the gentleman and recognize the gentleman from Louisiana, Dr. Cassidy, for 5 minutes.

Mr. CASSIDY. Thank you, Madam Chairman. It has been a long time since I was called a gentleman.

Mrs. BONO MACK. A gentleman and a doctor, but please remember your microphone. Thank you.

Mr. CASSIDY. Mr. Murphy, it is my sense that when we compete internationally, we typically are sending out high-value-added products. Now, maybe agriculture is an exception so I will limit myself to the manufacturing sector. But it seems as if we are sending out something which the folks who are employed in that field have good jobs with good benefits and so obviously extrapolating from that, if that is true, is it safe to say if we expand trade and this trend continues, we cannot compete on commodity pricing for tennis shoes perhaps with China but we certainly can compete on Micro Windows which again is high value added. Would you agree with that statement, that line of object?

Mr. MURPHY. I would very much so, and you see that in high-tech industries, for instance, in the defense industry. It is the most sophisticated products that the United States excels in producing and exports worldwide. But you see it in other what you don't necessarily think of as high-tech products. For instance, you think of the textile and apparel sector. The textile industry is very capital intensive, and the United States still has a significant textile industry which employs I believe close to half a million Americans. What we don't have is the cutting and sewing which is a low-skill, low-value-added operation, the apparel making. That has largely moved outside the United States, so I think that is another illustration.

Mr. CASSIDY. So the way to save, manufacturing, at least in terms of that manufacturing with good jobs and good benefits, is to promote trade where our workers and our companies which add value and intellectual expertise and in so doing employ more, correct?

Mr. MURPHY. That is absolutely correct, and you see that in the statistics. For instance, major manufacturing States like Ohio, for instance, are incredibly dependant on exports. The proportion of exports of their manufacturing output that is exported is very high. It is well above half.

Mr. CASSIDY. Now, let me ask you, I represent Louisiana in the 6th district, which is the Baton Rouge area, and so recently Exxon Mobil did a big build-out. Now, I asked them, since they have plants in China, they have refineries in the United States, what do they do, where do they go, and they said anything that involves intellectual property we do domestically because if it is just strictly commodity, we are sure that our blueprints are going to be—this isn't Exxon, OK? I am not trying to get Exxon in trouble with China. I will just say the observation of the person was that the absence of intellectual property rights in China means that oftentimes whatever process they bring there seems to be reproduced at a local plant. That said, it seems like—now, they also said that it is the availability of inexpensive feedstock, in this case, natural gas, as well as the Mississippi River to transport as well as a highly trained workforce that combines to make the United States the place to be. What would happen in that scenario, knowing that the feedstock is incredibly important because you can find waterways and trained workforces in Europe, if we raised our energy prices to, let us say, I think I just read Denmark has a 38-cent-per-kilowatt-hour rate of energy and probably Louisiana is 6 cents per kilowatt-hour, if we increased our energy prices substantially, what would happen to that sort of manufacturing base I just described?

Mr. MURPHY. Well, I think even in your question you have outlined how it is really a web of policies and industries that come together that add up to the competitiveness of a nation. So absolutely, when you take one of those strands and weaken it, you undermine the competitiveness of industries worldwide. That is why hearings like this are so useful to be able to draw the connections between these different kinds of policies.

Mr. CASSIDY. I am actually struck that when folks talk about raising the price of carbon or the cost of energy, they seem to ignore the impact it will have upon domestic manufacturing, at least energy-intensive enterprises. I have just read now Spain is having to withdraw their subsidies because the effect of high-cost energy has made them less competitive, weakened their economy, etc., etc., etc. I think it used the word "demoralized." Any other comments on that?

Mr. MURPHY. Well, just in the chamber's membership, what you have indicated is the reason why there is such a breadth of concern about proposals to add to energy costs in this country, and it comes not just from energy-producing companies and sectors but from the major consumers, the industrial consumers.

Mr. CASSIDY. And just to be sure, because sometimes for whatever reason people don't make the connection, if we hurt those industries, we hurt those workers. Those good jobs and good benefits are now lost and they are shipped overseas.

Mr. MURPHY. And it all goes into the calculus that executives have to make about where they are going to site production and invest and hire.

Mr. CASSIDY. Yes. I yield back. Thank you.

Mrs. BONO MACK. I thank the gentleman and recognize Mr. Stearns from Florida for 5 minutes.

Mr. STEARNS. Thank you, Madam Chair, and this is a very good hearing. I have been watching it on the television.

I hear from the other side, they are talking about, they say if the government is broke, why are we giving tax breaks for corporations, and there has been some question about that we are not competitive as corporations. So Mr. Murphy, I think one thing we need to explain to the American people is this idea of territorial-based tax regime, and you might use an example like if a company in the United States goes to Germany and opens up a plant, that company is going to pay taxes in Germany and then they are going to come back to the United States and pay taxes. You might just elaborate on that so that the people understand that there is sort of extra taxation on our corporations.

Mr. MURPHY. I am happy to. You know, as was mentioned earlier, the United States is one of the very few countries in the world that has this worldwide system of taxation and so the danger is that a worldwide company that has operations in more than one market is going to be taxed twice on its income. It is a huge disincentive. By contrast, all of our major industrial competitors have territorial tax systems where they only pay taxes on their production in a given country. At present we have some tax treaties that allow us to avoid double taxation but this is a partial solution, and I think there is a growing sense in the business community that it is time to have a full reexamination of this system and whether or not it is comprehensively putting U.S. industry at a disadvantage.

Mr. STEARNS. Another point is Canada has dropped their corporate tax rate, and I think the folks on the other side are saying how can we drop the taxes on corporations. Well, again, as you pointed out, they are competing globally, and if the tax rates are less in Canada and other countries, those corporations have an advantage.

Mr. MURPHY. The Canadian government has taken a very interesting approach to their competitiveness, whether it is cutting their tax rates, which I believe is just a little bit—the corporate tax rate is just above 15 percent, 16 percent. They have also undertaken an initiative to permanently reduce tariffs on industrial inputs that they import. As Mr. Ikenson was pointing out, the competitiveness of a manufacturing operation depends on imports much of the time as well, and with little controversy the Canadians were able to permanently eliminate a lot of those tariffs on imports.

Mr. STEARNS. Mr. Ikenson, let me ask you a question. I chair the Oversight and Investigation Committee, and we had Cass Sunstein come up and we had a lot of questions for him dealing with regulation, and the Obama Administration plants to implement a slew of new regulations including regulation of carbon emissions and implementing regulations obviously related to health care. Do you have any concern? I asked them if there was any economic impact on these regulations. They said they didn't know of any. Do you have any concerns about the impact of these up-and-coming regulations on the ability of the United States to compete and what suggestions would you offer?

Mr. IKENSON. You know, President Obama visited the chamber a few weeks ago and he said I have come to the center on taxes and I have come to the center on trade, now invest and hire. But there is a lot of uncertainty to the business environment, the health care legislation, the Dodd-Frank bill. There is a lot of pending regulation that hasn't been promulgated yet and it is leaving the business community in a state of uncertainty and I think that that is a problem. You know, regulations that are absolutely sensible and not redundant make sense, I suppose, under certain circumstances but maybe we have superfluous regulation. Maybe there is too much. And certainly the fact that we don't know what is coming down the pike is a deterrent to investment. You know, as Mr. Murphy said, one way we can stimulate our manufacturing base, which by the way is the most prolific manufacturing sector in the world. We produce more output by value than any other country in the world and we are doing quite well but one way is to do what the Canadians did. Let us scrap our tariffs on industrial inputs. And this might be a little bit controversial, let us revisit the anti-dumping law so that downstream users, our manufacturers, our exporters, can have a say in the hearings at the International Trade Commission.

Mr. STEARNS. Thank you.

My last question is for Mr. Holleyman. You testified that the U.S. government needs to increase its efforts to prevent our own government from purchasing counterfeit software. How often does the government purchase counterfeit software and how does this happen that the government is not buying legitimate copies of software?

Mr. HOLLEYMAN. That is a good question. The U.S. government is overwhelmingly acquiring legitimate software, and that has been a formal policy and Executive Order that has been in place for over a decade, and typically when piracy happens within a government or a business, it may not be a purchase of a counterfeit product, it is simply allowing an extra three to five to 1,000 people use a software program without having a proper license. So our recommendation is to build on what is a strong Executive Order here in the United States about federal use of software. By the way, Inspector Generals within agencies audit to make sure they have the proper licenses. Two, require that federal contractors also have to comply with U.S. laws and ensure that they are using legal software. That will help reduce some of the 20 percent piracy rate here in the United States, not eliminate it, but it will be a tool that we can use with other governments to encourage them to lead by example.

Mrs. BONO MACK. And on that note, the gentleman is out of time and we have to wrap things up today. I want to thank all of our panelists and my colleagues and the ranking member for his help today, for our staffs on both sides, and for everybody for your time and for your commitment on these critically important issues. Clearly, we have a great challenge before us but I have always believed that new challenges create new opportunities. Working together, I am convinced that we can increase U.S. exports and create new U.S. jobs in the process.

I also need to remind members that they have 10 business days to submit questions for the record, and I ask the witnesses to please respond promptly to any questions that you might receive.

Again, thank you all very much, and the hearing is now adjourned.

[Whereupon, at 12:47 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

PREPARED STATEMENT OF HON. FRED UPTON

Thank you, Madam Chairman. I want to commend you for holding this timely hearing, the second in a series investigating how we at the national level can foster an environment of job creation.

As we heard at our last hearing, and as January's impressive export numbers reveal, the U.S. manufacturing sector is alive and close to well. How we get those companies fully well is why we are here today. I firmly believe the key to growing jobs here in the U.S. is growing demand, and the key to growing demand is reaching consumers in the global economy.

Based on the President's creation of the National Export Initiative, I am not alone in that belief. But while we may agree on the need to grow our exports, we may not be on the same page on how to do so.

I believe we need policy changes that will make our companies more competitive with their foreign counterparts. This can be accomplished in areas such as reforming our tax regime and reducing regulatory burdens in ways that do not sacrifice safety. I also believe we need to act on pending free trade agreements with Korea, Panama, and Colombia. Those agreements represent billions of dollars left on the table because of a failure to act on them in the last four years. In addition, I believe we must find new trade partners, opening the doors of opportunity to new and emerging markets. Free trade agreements not only remove tariffs and other barriers for American products to enter foreign markets, they are essential to ensuring producers here in America have access to affordable supply chains.

Let me be clear: I fully support making it here in America, but I do not believe we should demonize imports. Inexpensive component parts used to manufacture and assemble final products here in the U.S. not only keep American products affordable to Americans, but they also ensure American products are affordable to consumers in other countries. In other words, affordable component parts are what keep our exports competitive in foreign markets.

I look forward to hearing about what the Administration is doing to foster growth in exports, whether and how Congress should act to aid in that effort, and what the economic and employer perspectives are on how the federal government can help cultivate export growth to promote American job creation.

Thank you, Madam Chairman, and I yield back.

PREPARED STATEMENT OF HON. CLIFF STEARNS

Thank you, Mr. Chairman. I am deeply pleased to have the opportunity to be here today to discuss and maintain our bi-partisan mission to create jobs.

Unemployment remains a deep concern for all of us and we hear about it from our constituents on a daily basis. The solution obviously is job creation. No one in this committee would dispute this to be true, but its time that our actions reflected our words.

According to the President, our export should double in five years. If the Administration is sincere about this goal to boldly increase our exports, their actions should be just as bold. We need to analyze if current trade laws are supporting or impeding American companies from this achievement. We need to put politics aside and work through these barriers to make ″Made in America″ a proud statement.

We understand that the road to recovery will be tough and will certainly take time. American families struggling to make ends meet have been patient. Being here today enforces our commitment to our constituents, showing we are sincere about getting the economy on track and that are words are more than just words. Again, I appreciate the opportunity to be here and I look forward to hearing the testimonies of our witnesses. Thank you Mr. Chairman.

PREPARED STATEMENT OF HON. EDOLPHUS TOWNS

Thank you Chairman Bono-Mack and Ranking member Butterfield for holding this hearing today on “Made in America: Increasing Jobs through Exports and Trade”. Our economy has been steadily improving over the course of the past several months. The unemployment rate is a key indicator of economic strength. Currently our unemployment rate sits at 9 percent and the Dow Jones Industrial Average peaked above 12 thousand for the first time in two years. While these economic indicators are welcome news to the markets they do little to instill confidence in the American people that jobs are on the way.

This congress must do everything in its power to promote and create jobs, free and fair trade is one way to accomplish this goal. As a Democrat I believe in free and fair trade. In this 21st century economy we must be ably equipped to compete in the global market place. Our manufactures and small businesses must have open access to overseas markets to promote job growth in America. There are far too many barriers to this ideal that still permeate in the market place today.

Given the opportunity free and fair trade will translate into job growth for our economy; however the benefits of such trade deals will be lost if we continue to incur imbalance in US trade agreements. According to the Center for American Progress the third quarter trade deficit in 2010 reached 3.7 percent of GDP, up from 2.4 percent in the second quarter of the previous year. The higher the trade deficit the more indebted the United States is to overseas investors who must eventually be repaid.

I look forward to working with my colleagues on both sides of the aisle to address these barriers to job growth and economic independence. I also look forward to hearing from our witnesses today on their ideas for unleashing American innovation through trade. Capstone Turbine Corporation is one such company that has unleashed their innovation in the global market place and is excelling in their industry. Sixty percent of all sales at Capstone Turbine Corporation are from exports. I look forward to hearing from them on how we can translate their success to other companies looking for economic growth.

Thank you and I yield back the balance of my time.

FRED UPTON, MICHIGAN
CHAIRMAN

HENRY A. WAXMAN, CALIFORNIA
RANKING MEMBER

ONE HUNDRED TWELFTH CONGRESS

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April 19, 2011

The Honorable Francisco J. Sanchez
Under Secretary of Commerce for International Trade
International Trade Administration
U.S. Department of Commerce
1401 Constitution Avenue, N.W.
Washington, D.C. 20230

Dear Under Secretary Sanchez:

Thank you for appearing before the Subcommittee on Commerce, Manufacturing, and Trade on Wednesday, March 16, 2011, to testify at the hearing entitled "Made in America: Increasing Jobs through Exports and Trade."

Pursuant to the Rules of the Committee on Energy and Commerce, the hearing record remains open for ten business days to permit Members to submit additional questions to witnesses, which are attached. The format of your responses to these questions should be as follows: (1) the name of the Member whose question you are addressing, (2) the complete text of the question you are addressing in italics, and then (3) your answer to that question in plain text.

To facilitate the printing of the hearing record, please e-mail your responses, in Word or PDF format, to carly.mcwilliams@mail.house.gov by the close of business on Tuesday, May 2, 2011.

Thank you again for your time and effort preparing and delivering testimony before the Subcommittee.

Sincerely,

Mary Bono Mack

Mary Bono Mack
Chairman
Subcommittee on Commerce, Manufacturing, and Trade

cc: The Honorable G.K. Butterfield, Ranking Member,
Subcommittee on Commerce, Manufacturing, and Trade

Attachment

House Energy and Commerce
Subcommittee on Commerce, Manufacturing and Trade
Questions for the Record
March 16, 2011
"Made in America: Increasing Jobs through Exports and Trade"

The Honorable Bono Mack

1. You testified that KORUS is ready to be approved, and that you continue to work on the Panama and Colombia FTAs. Please describe any outstanding concerns with the Panama and Colombia FTAs, which you referenced in your testimony.

The Government of Panama has taken a series of legislative and administrative actions to further strengthen its labor laws and enforcement. Also, on April 18, 2011, a Tax Information Exchange Agreement (TIEA) went into effect between the United States and Panama. The TIEA is consistent with international standards and will permit full exchange of information for tax purposes between the two countries.

The Administration has been working closely with the Government of Colombia to address serious and immediate labor concerns, including that Colombia protect internationally recognized labor rights, prevent violence against labor leaders, and prosecute the perpetrators of such violence. The result, on April 7, was an "Action Plan Related to Labor Rights" that will lead to greatly enhanced labor rights in Colombia.

Those steps by Panama and Colombia, respectively, cleared the way for the Administration to begin discussions with the Senate Finance Committee and the House Committee on Ways and Means on the implementing legislation for the two agreements. As you may be aware, those committees held "mock mark-ups" on the Korea, Colombia, and Panama implementing legislation on July 7.

2. After South Korea, Panama, and Colombia, who should be next in terms of negotiating a Free Trade Agreement?

The Obama Administration's 2011 Trade Policy Agenda key goals include negotiation of the Trans-Pacific Partnership (TPP), an ambitious Asia-Pacific trade agreement that the United States is negotiating with Australia, Brunei Darussalam, Chile, Malaysia, New Zealand, Peru, Singapore, and Vietnam. We are working to conclude a next-generation agreement with these countries, and eventually expand the agreement to countries throughout the Asia Pacific. The Obama Administration is also seeking the completion of the Doha Development Agenda negotiations in the World Trade Organization (WTO) and working with Russia on its accession to the WTO.

3. In his State of the Union speech, the President mentioned the need to address the redundancy and inefficiency of the government's approach to exports, with at least a dozen different agencies having some role in dealing with exports.

The Administration has initiated a process to develop recommendations to streamline government programs focused on trade and competitiveness to make sure that the parts of the government that support business and American competitiveness are best organized to provide that assistance. While that process moves forward, our focus continues to be on carrying out our mission – helping American companies be more innovative at home and competitive around the world.

4. The International Trade Commission is conducting a Section 332 Investigation on the effects of China's IP infringement and its indigenous innovation policies on US competitiveness. The first study made clear that IP theft is widespread across a range of industries, and in May there will be a second report that focuses on the impact on jobs. How does the Administration plan to use this data to secure change from China?

The International Trade Commission's (ITC) Section 332 Investigation report has informed our work and sheds additional light on the challenges U.S. companies face protecting their intellectual property in China. A strong intellectual property regime is critical to ensuring that U.S. companies remain competitive and that U.S. jobs are protected. The United States is engaged in active dialogue with China on intellectual property rights (IPR) and indigenous innovation through multiple forums, including the Joint Commission on Commerce and Trade (JCCT) and the Strategic and Economic Dialogue (S&ED). We made significant progress at the December 2010 JCCT meeting including securing a commitment from China that it will not adopt or maintain measures that make the location of the development or ownership of IP a direct or indirect condition for eligibility for government procurement preferences for products and services, which has been a frequent component of China's indigenous innovation programs.

In addition, during President Hu's visit to the United States in January 2011, China committed to de-link China's indigenous innovation policies from the provision of government procurement preferences. During the May 2011 S&ED III, we made further progress, including through additional Chinese commitments on improved IPR protection and software legalization, and elimination of all of government procurement indigenous innovation product catalogues, and revision of Article 9 of the draft Government Procurement Law Implementing Regulations as part of its implementation of President Hu's January 2011 commitment. In addition, we understand that China recently issued a regulatory document that rescinds three separate regulations linking provision of government procurement preferences to innovation policies. While this appears to be a positive step, numerous additional measures remain that must be eliminated or modified in order for China to fully meet its commitments.

Although U.S. trade losses due to counterfeiting and piracy in China remain unacceptably high, we are encouraged by China's recent progress in protecting and enforcing IPR. Specifically, China has revised IPR-related legislation and has extended the Special Campaign to combat IPR infringements. The United States will continue the IPR dialogue with China in order to advance the interests of U.S. companies and protect American jobs.

5. Every year Customs reports that the country at the top of the list for trying to export infringing products into the U.S. is China. What is the Administration currently doing to address this problem?

The seizure statistics compiled by U.S. Customs and Border Protection (CBP) and Immigration and Customs Enforcement (ICE) show that China is perennially the primary source country for goods imported into the United States that infringe an intellectual property right.

Under the auspices of the U.S. Patent and Trademark Office (PTO) Attache Office in Guangzhou, Product ID training sessions have been organized with industry participation and in conjunction with Guangdong Provincial Customs using the Customs Training Center. PTO has discussed additional training sessions with high level GACC officials in Beijing and is in the process of organizing an additional Product ID training session with Guangdong Provincial Customs to focus on copyright protection for companies that have been unable to obtain trademark protection. Conrad Wong, the PTO Attache assigned to the U.S. Consulate in Guangzhou, is coordinating these efforts.

On September 14, 2010, ICE signed a Letter of Intent (LOI) with the Chinese Ministry of Public Security. The LOI cements an agreement for greater cooperation between the two agencies to combat intellectual property crime and money laundering. Chinese law enforcement officials agreed to exchange information, engage in joint intellectual property investigations, and meet regularly at the highest levels. On May 5, 2011, ICE signed a Memorandum of Understanding (MOU) on Law Enforcement Cooperation in Criminal Matters with the GACC. This MOU facilitates law enforcement cooperation and information sharing between ICE and the GACC, including on IP theft.

On the margins of the Strategic & Economic Dialogue in May 2011, CBP and GACC amended their IPR Memorandum of Cooperation (MOC) to improve the information sharing provisions. The MOC, which CBP signed with GACC in May 2007, creates a framework for cooperation between China and the United States to enhance border enforcement of IPR.

6. In early March, the EU took preliminary action against China in one product sector because of the large credit lines that Chinese-government-controlled-banks provide to their exporters, creating a de facto export subsidy. Similarly, China's lack of IPR enforcement results in an advantageous situation for Chinese enterprises to sell their IT into the U.S. market: a Chinese company that does not invest in IP has no costs to pass along to the consumer while U.S. companies that legitimately invested in IT must pass that cost to consumers. Is the Administration discussing actions on these types of issues similar to that initiated by your EU counterparts?

The United States is committed to pushing our trading partners to enhance their IP regimes. Through our engagement with our trading partners we strive to ensure that U.S. companies are afforded the market access promised to them under our trade agreements. The Office of Intellectual Property Rights (OIPR) coordinates ITA's work on trade-related IP matters. OIPR leads efforts to provide recourse for U.S. companies facing unfair IP trade barriers, thus helping ensure that our trading partners establish and maintain legal regimes that provide for effective IPR protection and enforcement so U.S. IP industry firms and workers can benefit from the market access due to them under our trade agreements.

7. This Committee played a part in moving the Travel Promotion Act through Congress in 2008 to become law. The premise for the legislation was that we would see the benefits of

increased exports through increased travel and tourism by more foreign travelers. One of the primary obstacles identified by industry research is our visa system.

a. **Do you agree increasing our share of foreign travel would help our economy and employment?**

Yes. An increase in the U.S. share of total in-bound foreign travel would generate additional revenues in U.S. travel and tourism exports and generate new jobs to support these services. The travel and tourism sector is the largest U.S. services export. According to the Office of Travel and Tourism Industries, in 2010 there were 59.7 million visitors to the United States whose travel-related expenditures reached $134 billion. Visits by foreign travelers support 1.2 million jobs in the travel and tourism industry.

b. **How significant is it to attract a greater share of foreign travel to the U.S.?**

Very significant. Competition for travel and tourism trade is increasing across the world. Travel and tourism contribute significantly to our nation's balance of trade in services, generating a surplus of $32 billion in 2010. Revenues derived from international travel support job creation; in 2010, international travel to the United States supported 1.2 million jobs.

c. **How are visa delays hurting America's ability to maximize travel to the U.S.?**

Since 2003, nonimmigrant travel to the United States has grown steadily, and during fiscal year (FY) 2010, the Department of State issued almost seven million visas to qualified applicants around the world. Since FY 2005, non-immigrant visa workload is up in many key markets, such as Brazil, China, and India. There are challenges in meeting the demand in these key markets, particularly during times of peak travel, such as the summer months. The Department of State is working to meet the demand for visas by streamlining operations and increasing capacity.

Recent analysis by the International Trade Administration found that in 2009, nearly 32 percent of leisure and 47 percent of business non-immigrant air-travelers required a visa to enter the United States. Simplifying the visa process and increasing the number of visa-processing locations in key countries where travelers can apply for visas would facilitate legitimate travel to the United States.

d. **Would there be an immediate increase in travel to the U.S. if we make the visa process more efficient and responsive to the demand?**

A more efficient, more responsive U.S. visa process would likely produce an immediate increase in travel to the United States from the few countries that have longer waits for visa interviews during peak periods.

e. **What progress is being made to facilitate a better visa system that does not undermine our necessary security precautions?**

Commerce is collaborating closely with both the Departments of Homeland Security and State to facilitate international travel to the United States while maintaining high national security precautions.

To fully promote U.S. exports and inward investment, it is imperative that the United States maintains a business-visa process that enables legitimate business travelers to visit the United States to meet with exporters, inspect the quality of their products, explore investment opportunities, and forge business relationships.

Late in 2009, the Department of Commerce led the creation of the Interdepartmental Working Group on Business-Related Visa Issues with the Departments of Homeland Security and State in response to feedback we received from the U.S. business community about the business-related visa application process. Efforts by the Working Group included outreach to the U.S. business community to explain how to advise foreign business partners to apply for a visa; a survey of the U.S. business community to gain insights on how current visa policy affects U.S. industry, and dealing with business-related visa application problems as they arise on an ombudsman basis.

8. Foreign travel to the U.S. accounted for over $130 billion in 2010. How much room for growth in the travel industry is there if we can make the entry process smoother for foreign travelers?

In 2010, 60 million international travelers visited the United States. More than 56 percent of them came without visas -- from Canada and the 36 countries in the Visa Waiver Program. Total international arrivals increased 17 percent and total overseas arrivals increased one percent during the same period. Since 2003, non-immigrant visa travel to the United States also has grown steadily. During FY 2010, the Department of State (State) issued more than 6.4 million visas to qualified travelers from around the world. Overall worldwide demand for visas is expected to climb four percent higher this fiscal year (FY 2011) from the previous four fiscal years.

Demand continues to intensify in major emerging economies. Since FY 2005, non-immigrant visa issuances are up 234 percent in Brazil, 124 percent in China, 51 percent in India, and 24 percent in Mexico. State is on pace to adjudicate 41 percent more visa applications in Brazil and 34 percent more in China this fiscal year compared to last fiscal year. State anticipates visa demand in China alone to grow at least 15 percent annually during the next ten years and expects to adjudicate approximately 800,000 visa applications in Brazil this fiscal year, up 45 percent from last year, which is nearly the same volume it sees in China.

State continually works to meet demand by streamlining visa operations, extending hours of visa interviews, exploring ways to interview fewer people, increasing staff, and outsourcing some visa-related operations. For example, State is establishing more than three dozen new consular positions in countries with the highest visa demand during the next year. State also implemented a new program to hire and place additional visa adjudicators with requisite foreign language proficiency in our busiest consular sections for periods of up to five years. This program initially will start in China and Brazil.

We strive to make the process more secure, more efficient, and less likely to delay innocent travelers. Statutory security screening procedures, while time-intensive, are an essential component to State's ability to fulfill its responsibilities with regard to border security and the visa application and issuance process.

Since the visa application process is largely statute-driven, major changes to existing legislation would be necessary to allow State greater flexibility in easing visa workloads. For example:

- Under current law, certain types of visa fees may only be expended to combat fraud. Such funds are therefore unavailable for other necessary consular support and services.
- Under current law, State can only waive the interview requirement for travelers who are applying for a new visa in the same class as a previous visa, and within 12 months of the previous visa's expiration. Low-risk travelers whose visas expired more than a year before or were in a different classification must be interviewed in person, creating additional workload.
- State will coordinate with the Department of Homeland Security to appropriately amend the statute so that we can waive the interview requirement for low-risk applicants seeking new visas in the same or another category for a set period of time after the prior visa has expired.
- The law requires that, insofar as practicable, visa validity be established on a reciprocal basis with a foreign government. In certain countries, notably China, the visa validity for tourists is relatively short – one year, at most. The Chinese government is uninterested in increasing visa validity for U.S. citizens; therefore, based on this reciprocity, Chinese citizens must reapply for U.S. visas annually. This has a dramatic impact on workload, as thousands of current U.S. visa holders apply simultaneously with thousands of first-time travelers.

9. Exporting industries cite outdated regulations that restrict the export of design and manufacturing data, even when the technologies are common and available worldwide. What is the Commerce Department doing to address this concern so that it can enable U.S. companies to export more, not less?

The Department of Commerce's Bureau of Industry and Security (BIS), working with other relevant national security agencies, as part of an inter-agency task force, is implementing the President's Export Control Reform Initiative. The objective of the reform is to better protect U.S. national security by updating the U.S. export control system to address the realities of the 21st century, including the foreign availability of many technologies. As part of the reform, Commerce is working with the inter-agency task force to revise its regulations to focus controls more precisely on items that pose a serious national security risk while facilitating exports of less sensitive items available from foreign sources to destinations and end-users that do not pose a national security or foreign policy concern. Last year, Commerce published a rule revising its controls on certain types of commercial encryption products to better address national security needs while facilitating secure exports. Another step in this effort is Commerce's recent publication of a new License Exception Strategic Trade Authorization. This regulatory revision will facilitate the export of many additional controlled items to low risk destinations. Commerce will continue to work with the inter-agency task force to move forward with implementing additional parts of the reform.

The Honorable John D. Dingell

1. President Obama recently announced that the KORUS FTA will create 70,000 jobs here in the United States. Korean President Lee Myung-bak has announced the deal will create 335,000 jobs in Korea over the next 10 years. Do you agree with these estimates?

The International Trade Commission has estimated that the elimination of tariffs alone in the U.S.-Korea Free Trade Agreement (KORUS) will increase exports of American goods to Korea by nearly $11 billion annually, which the Administration estimates will support at least 70,000 American jobs. Additional American jobs will come from breaking down non-tariff barriers that keep U.S. exports out of Korea and by requiring stronger protection and enforcement of intellectual property rights in Korea. Just as importantly, the KORUS will also open Korea's $580 billion services market to highly competitive American companies – supporting even more jobs for American workers in sectors ranging from express delivery and telecommunications services to insurance and other financial services. In addition, Korean direct investments into the United States employ many of our workers. In 2010, foreign direct investment from Korea to the United States totaled $15.2 billion. According to the most recent data available, U.S. subsidiaries of Korean-owned firms in the United States employed almost 22,400 U.S. workers in 2008.

This is a win-win agreement. While I cannot comment directly on the job estimates cited by Korean President Lee Myung-bak, the Korean government views the KORUS as an important contributor to economic growth.

2. The International Trade Commission's 2007 report on the KORUS FTA, as amended in March 2010, indicates that the U.S. motor vehicles and parts trade deficit with Korea would increase by between $1 and $1.3 billion annually if the FTA were implemented. Does Commerce estimate this as well?

The International Trade Administration, the Economics and Statistics Administration, and the U.S. Census Bureau, all of which are in the Commerce Department, do not make estimates of this nature. I would note, however, that the figures cited in the question are somewhat misleading when not considered in the context of the size of the two countries' respective automotive markets and current trade patterns. The ITC estimates that the KORUS will begin to address this disparity by leading to 41-56 percent increase in U.S. auto exports to Korea, between four and five times the expected 11 percent increase in Korean auto exports to the United States.

3. Again, to your knowledge, has the ITC revised this prediction in light of the December 3, 2010, amendments to the agreement? (If "yes," please elaborate briefly.)

Earlier this year, the ITC reported on the effects of the passenger vehicle provisions of the new agreements. This report included two separate quantitative simulations. The first simulation examined the removal of all Korean non-tariff measures in the auto sector and the potential effect of such changes on U.S. exports of certain passenger cars. The second simulation updates the previous ITC simulation (from its 2007 report) for the motor vehicles and parts sector using 2009 data and reflecting 2009 economic conditions, but does not incorporate the non-tariff measure analysis from the first simulation.

The ITC concluded that U.S. exports of passenger vehicles to Korea would likely rise significantly. The ITC reported that the removal of Korean nontariff measures that affect U.S. exports of passenger cars could lead to an increase in U.S. exports of $48 million to $66 million (41 to 56 percent). This estimate is in addition to the increase in U.S. exports of $194 million of motor vehicles and parts from the original agreement.

4. I am troubled by the KORUS-FTA's country of origin rules. Is it true that such rules permit a product from Korea with a minimum 35 percent of Korean content to be considered as having originated in Korea for U.S. tariff purposes? If so, for the sake of argument, is it possible a Korean product with 65 percent Chinese content could be imported into the U.S. under the KORUS-FTA's favorable tariff conditions?

No, this is not true. The minimum percentage content rules in the KORUS, such as described in this question, apply to certain goods, including automobiles and automotive goods. With respect to autos, these rules were specifically designed to help the U.S. auto industry take advantage of the market access opportunities provided by the KORUS and create jobs for U.S. workers in this important industry. Further, these rules ensure that only U.S. or Korean goods receive the tariff benefits under the KORUS, not third parties such as China. Under KORUS, to qualify for tariff benefits, a car must be produced entirely in the United States or Korea and must be made of a sufficient amount of U.S. or Korean materials. So, first, the car has to be built in the United States or Korea. As for the materials that go into it, there are three methods available to automakers to establish that a car has enough U.S. or Korean materials to qualify. They all produce equivalent results. Under none of the three methods would a car with 65 percent Chinese content qualify.

5. I note that the KORUS-FTA, as amended last December, includes a provision that allows the U.S. to "snap back" its tariffs on automobiles and light trucks if Korea violates the terms of the FTA. Is it true that the agreement does not allow the U.S. to snap back to its original 25 percent tariff on light trucks?

The snap back provision applies to goods under tariff heading 8703, which includes a wide variety of passenger vehicles such as passenger cars, SUVs, minivans and cross utility vehicles. All of these vehicles are currently assessed a 2.5 percent duty by the United States. The snap back does not apply to vehicles under tariff heading 8704, where light trucks such as pickup trucks are classified. However, U.S. imports of vehicles from Korea under this tariff heading have historically been negligible. Furthermore, if Korea violates the KORUS, or nullifies or impairs its benefits with respect to motor vehicles in a way that materially affects trucks or other vehicles under tariff heading 8704 the United States would be able to reimpose its 2.5 percent tariff on vehicles classified in 8703.

6. Further, is it true that the snapback provision would allow Korea to re-impose an eight percent tariff on U.S. passenger vehicles, while the U.S. would be allowed to impose a tariff of only 2.5 percent on Korean passenger vehicles?

The snap back provision allows a party to increase its customs duty back to the original Most Favored Nation (MFN) duty rate as a result of a dispute settlement action, as long as the nonconforming practice remains in place. The U.S. MFN tariff on passenger vehicles is 2.5 percent, while Korea's MFN tariff rate is eight percent. However, given the respective sizes of the two countries' automotive markets, a return of the 2.5 percent U.S. tariff would have a much larger monetary impact than a corresponding return of the eight percent tariff in Korea (U.S. imports of passenger vehicles from Korea under tariff heading 8703 have averaged $7.3 billion a year during the past five years – 2.5 percent of this amount is approximately $183 million).

7. **Finally, the Department of Commerce will bear significant responsibility in enforcing the terms of the KORUS-FTA. Do you commit to doing so vigilantly and fairly?**

Yes. Commerce's International Trade Administration has a formal program, the *Trade Agreements Compliance Program* (the program), that breaks down barriers to market access and proactively monitors and helps promote compliance with trade agreement provisions, seeking to ensure that trade agreements work for Americans and helping support U.S. exports and jobs. Under this program, 219 new market access and compliance cases were initiated last year, 89 on behalf of small and medium-sized enterprises, and 82 specific trade barriers in 45 countries affecting a broad range of industries were successfully resolved.

The program provides a framework for proactive monitoring of trade agreements, a process for identification, investigation, and resolution of trade barriers, and the strategy for conducting outreach to inform stakeholders of efforts and services in this area. Action plans developed to address a specific barrier may involve bilateral contacts, working with interagency colleagues to raise issues in the WTO or bilateral/regional trade policy fora and training/capacity building efforts, etc.

The program benefits from the active involvement of ITA trade officials stationed around the world. To assist in outreach to companies, ITA has over 100 domestic U.S. Export Assistance Centers and works very closely with some 60 District Export Councils, over 100 trade associations, and over 50 State International Development agencies.

Responses of Robert Holleyman to
Questions for the Record of
Hon. Mary Bono Mack and
Hon. Cliff Stearns

United States House of Representatives
Committee on Energy and Commerce
Subcommittee on Commerce, Manufacturing and Trade
Hearing on
Made in America: Increasing Jobs through Exports and Trade

The Honorable Bono Mack

1. You testified that up to 60 percent of sales of our leading software makers are exports, but also testified $51 billion of software was used illegally around the world in 2009. How much of that revenue could accrue to our business software companies as exports if the illegal use of software was cut in half?

   Answer: The amount of additional revenue that could accrue to US software companies if piracy were reduced by fifty percent would be a function of (a) the share of worldwide software revenues that flow to US companies and (b) the "revenue recapture rate" – the percent of pirated acquisitions that would be captured by legitimate vendors.

   US software companies have a 60% share of worldwide software revenues – that is about 60 cents of every dollar spent on software worldwide comes back to US-based companies. We have no reason to believe that percentage would be any different if software sales were to increase due to a reduction in piracy.

   Based on as-yet-unpublished econometric research sponsored by BSA, the revenue recapture rate for packaged software is about 80% - that is, for each dollar by which the commercial value of pirated software is reduced, revenues to legitimate software producers can be expected to increase by 80 cents.

   Applying these two percentages, we would expect that a reduction in the value of pirated software from $51 billion to $25.5 billion in 2009 would have resulted in increased revenues of about $12.2 billion to US companies.

2. Are foreign countries doing enough to enforce IP rights? Which countries are not doing enough?

   Answer: Many countries should do more to reduce prevailing high levels of piracy. Among those that stand out in this regard are the major emerging markets of China, Russia, India and Brazil. The median piracy rate for PC software in these countries is 66%, with an aggregate commercial value of pirated software of nearly $14.5 billion.

   a. What tools or remedies do we have to persuade other countries to protect our intellectual property?

Answer: The US government has numerous tools at its disposal to persuade our trading partners to protect US intellectual property, including:

- Multilateral trade remedies through the World Trade Organization (WTO) dispute resolution mechanism;
- Remedies through bilateral or regional trade agreements (where they exist);
- Unilateral pressure through trade preference programs, such as the Generalized System of Preferences (GSP), that include IPR protection among the eligibility criteria;
- Unilateral pressure through the Special 301 provision of the Trade Act; and
- Bilateral engagement through any one of a number of formal or informal mechanisms.

Each approach has its strengths and weaknesses. In our experience there is no single "magic bullet." Multiple avenues need to be pursued, preferably in concert with sustained engagement between the US and the trading partner in question.

b. Which is more effective at resolving IP issues: the WTO TRIPS (Trade-Related Aspects of Intellectual Property Rights) or bilateral agreements?

Answer: It is impossible to generalize, particularly given the dearth of experience with dispute resolution cases under our bilateral trade agreements. However, it is fair to say that the level of IPR obligations contained in the bilateral free trade agreements negotiated by the US over the past decade are stronger and more specific than the TRIPS obligations that are subject to WTO dispute settlement.

c. Is our government doing its job to help enforce against IP theft?

Answer: Yes, our experience with US law enforcement has been very positive. Most of our enforcement efforts in the US, however, are through the civil justice system. The strong statutory damages provisions in the U.S. copyright law provide valuable deterrence and remedies in this country and important precedents internationally.

The creation of the position of U.S. Intellectual Property Enforcement Coordinator and the appointment of a highly qualified person to that position – Victoria Espinel – has further strengthened efforts in fighting piracy in the U.S. and internationally.

d. How do your members communicate with the government if they are a victim of IP theft?

Answer: On behalf of its collective membership, BSA identifies copyright infringements online. These infringements take a number of forms, including digital piracy (for example, unauthorized downloads or circumventions) and the sale of counterfeit goods. BSA investigates these infringements using a variety of investigative tools and techniques, including "trap" purchases. BSA is thus able to approach law enforcement (e.g., ICE, FBI, CBP, Postal Service) with leads that are fully-developed and appropriate for pursuit through the criminal legal system.

e. Is such business-to-government communication effective in producing results?

Answer: BSA has long enjoyed a fruitful relationship with the agencies making up our law enforcement community. A testimony to the success of this process is the history of successful prosecutions, both from cases referred by BSA and cases where BSA provided after-referral support.

The Honorable Cliff Stearns

1. What can be done to strengthen current policies regarding federal use of software within our own government, including federal contractors, to ensure software has been purchased legitimately and used with proper licenses?

Answer: Under Executive Order 13103 of September 30, 1998, federal agencies must take steps to ensure that they use only legal copies of software. In practice, individual agencies, under the guidance of the Federal CIO Council, have adopted robust policies to manage their software assets. These policies ensure that agency software needs are properly identified and budgeted for. They track software assets from the time they are deployed through the time they are taken out of service. And they ensure that proper records are kept.

The federal government can have a profound effect on reducing software theft, not only through its direct procurement of software, but also by leveraging its role as a procurer of other goods and services. The principle established by EO 13103 can be extended by executive order to require that federal contractors also use only legal copies of software. Firms that seek to sell goods and services to the US government should certify that their use of software is in compliance with the Copyright Act and relevant license agreements, and that they have controls in place to ensure that this is the case. By extending the executive order in this way, the Administration would establish a standard for other governments to follow.

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Responses by John Murphy, Vice President, International Affairs, U.S. Chamber of Commerce to the Honorable Bono Mack regarding questions members submitted after the March 16, 2011 hearing entitled: Made in America: Increasing Jobs through Exports and Trade.

1. **You testified that the number of small- and medium-sized businesses that export has doubled over the last 15 years. To what do you attribute this growth?**

The number of U.S. small- and medium-sized enterprises (SMEs) that export has doubled in this short period because Congress has been able to lower foreign barriers, including with key markets such as Canada and Mexico in 1994 and China in 2000. In doing so, the U.S. has made it easier for SMEs to compete on a fairer playing field, where U.S. companies have proven they can succeed. Since 1994, Canada and Mexico have become by far the most popular export destination for SMEs. In 2008 over 139,000 SMEs exported to those two markets, accounting for 25% of U.S. merchandise exports from SMEs. More firms are also exporting to China; more than 27,000 U.S. SMEs are known to have exported merchandise to China in 2008, the last year for which data is available. The 2008 total of exporting SMEs to China is more than seven times the number in 1992, when only 3,143 SMEs did so. In fact, from the last statistical overview of SME exports, the known export revenue of SMEs rose to $359.7 billion, up 14.5% from the previous year.

SMEs are responsible for a significant share of U.S. exports, job creation, and innovation. Moving forward, if the U.S. wishes to continue to compete in the global market place, Congress must facilitate on behalf of SMEs so that they are able to gain access to foreign markets. The most efficient and effective way to do that is to lower non-tariff and tariff barriers; that starts by ratifying the Korea, Colombia, and Panama FTAs.

2. **You testified that the U.S. is # 121 out of 125 world economies in terms of the number of tariffs our goods face overseas. What are the chief reasons the U.S. ranks so far down the list?**

The World Economic Forum issues an annual *Global Enabling Trade* report, which ranks countries according to their competitiveness in the trade arena. One of the report's several rankings gauges how high the tariffs are that a country's exporters face. Leading the pack as the country whose exporters face the lowest tariffs globally is Chile, with its massive network of free trade agreements with more than 50 countries around the globe.

While the report found the United States did well in a number of areas, America ranked a disastrous 121st out of 125 economies in terms of "tariffs faced" by our exports overseas. In other words, American exporters face higher tariffs abroad than nearly all our trade competitors. It is also worth noting that tariffs are just part of the problem, as they are often found alongside a wide variety of non-tariff barriers that shut U.S. goods and services out of foreign markets.

Historically, the only way the U.S. government has ever enticed a foreign government to open its market to American exports is by negotiating agreements for their elimination on a reciprocal basis. This is done in bilateral free trade agreements (FTAs), such as those pending with Colombia, Panama, and South Korea, or the Trans-Pacific Partnership, which is under negotiation. In addition, reciprocal market openings can be accomplished multilaterally, as in the Doha Round, the global trade agreement currently being negotiated under the WTO by the United States and 152 other countries.

3. **Your testimony points the the pending FTAs with Panama, Colombia, and South Korea as sources of American jobs and revenue.**

   a. **Are there credible studies estimating the number of jobs implementation of these agreements would create?**

The Korea-U.S. Free Trade Agreement has the potential to create 280,000 new American jobs and boost U.S. economic output by $27 billion annually, according to an assessment prepared by U.S. International Trade Commission economic staff at the request of the Senate Finance Committee Trade Subcommittee in January. This is arguably the most serious analysis of the potential benefits of the pending FTAs.

   b. **Similarly, are there any credible studies estimating how much money U.S. firms have foregone as a result of the U.S. not finalizing these agreements?**

In September 2009, the U.S. Chamber released a study which found that the United States could suffer a net loss of more than 380,000 jobs and $40 billion in lost export sales if it fails to implement its pending trade agreements with Colombia and South Korea while the European Union and Canada move ahead with their own agreements with the two countries. Largely as a result of Colombia's earlier trade accord with Mercosur, U.S. farmers have already seen their share of Colombia's agriculture market fall to about one-quarter today from about three-quarters just two years ago.

4. **One of the most important positives we can achieve with an FTA is the removal of barriers of in the forms of tariffs. You testified that our products face double-digit tariffs in some of these countries while South Korean, Panamanian, and Colombian products often enter our markets without tariffs.**

   a. **Can you quantify the dollar value of tariffs to which our products are subjected versus the dollar value of tariffs their products are assessed?**

b. What percent of our exports to those countries are subjected to tariffs? How does that compare to the percentage of their imports on which we impose tariffs?

The U.S. exports more than $106 million to Korea, $32 million to Colombia, $11 million Panama worth of goods and services each day. Every one of those goods and services faces an average tariff of 12.2%, 12.5%, and 7.1% respectively. That means U.S. exporters forgo profits of $12 million in Korea, $4 million in Colombia, and $835,000 in Panama each day due to tariffs they have to pay. The effects of these tariffs mean not only a decrease in profits, but an increase in the bottom-line cost of production for producers in America which translates into fewer exports and thus fewer jobs. However, those numbers fail to recognize the loss in profit that occurs because SMEs cannot compete in an unfair market place where other companies can produce similar products but save that 7% to 12% tariff fee. Conversely, the imports from these three countries face much lower tariff barriers. Korean goods face an average tariff of only 4% while Colombian and Panamanian goods and services, due to the Andean Trade Preference Act and the Caribbean Basin Initiatives, have enjoyed nearly free access to our marketplace for many years with more than 90% of their exports entering our markets duty free. In fact, the only tariffs Colombian and Panamanian products pay above 2% is automobiles (3.5%), audiovisual products (3.9%), and metal products (3.9%).

5. **You testified there are 283 regional trade agreements in effect around the world, with an additional 100 in the works, and that the U.S. is party to only 11 of these agreements, affecting trade with only 17 countries. Which country is in the lead in terms of pursuing FTAs? Do we know how that strategy has impacted its economy and whether it has resulted in job creation or job loss?**

A bold FTA strategy is a large part of the reason why the European Union today is the world's largest exporter and importer by a wide margin. The EU is furiously advancing a flexible and multifaceted approach to trade agreements. The EU has FTAs in force with more than 50 countries, negotiated but not yet in force with another dozen countries, and under negotiation with more than 60 countries. The upshot for European workers, farmers, and companies is access to global markets that is significantly superior to that enjoyed by their U.S. competitors.

Europe's success is visible around the globe. In Eastern Europe, Central Asia, South America, Africa, and increasingly in Asia, European brands and companies are surging. Export statistics confirm that booming emerging markets — which today purchase half of U.S. exports — are buying goods and services from Europe in significantly greater volumes than from the United States.

Trade policy is likely to play a growing role in the success of European exports. Consider how European negotiators are engaging with other countries.

First, the EU negotiates Association Agreements as a prelude to accession to the 27-nation European Union. These agreements pave the way not only to unfettered free trade, they usher countries into the world's largest customs union, with a common tariff policy toward the rest of the world. Dynamic Turkey has such an agreement, Ukraine is negotiating one, and Russia may well do so as a follow up to its accession to the WTO.

Over time these Association Agreements oblige a country to take on the entire body of commitments known as the *acquis communautaire*, representing the accumulated legislation, legal acts, and court decisions of EU law. For most countries, doing so represents a dramatic overhaul of their management of their regulatory and business environment.

Second, for developing countries outside Europe, the EU has been negotiating imperfect but still far reaching preferential trade agreements of continental scope. For example, through the Euro-Mediterranean Partnership, the EU has concluded Association Agreements with every country along the southern and eastern littoral of the Mediterranean Sea, granting these countries duty-free access to the European market for manufactures and preferential treatment for farm goods. In return, the North African and Levantine countries are gradually reducing their tariffs on EU exports.

Obliged by the WTO to end its unilateral preferences for former European colonies, the EU is also negotiating reciprocal FTAs dubbed Economic Partnership Agreements (EPAs) with far-flung groups of developing countries. One was signed with the Caribbean in October 2008, with negotiations now under way with groupings of African and Pacific island nations. While product coverage and treatment of services under these FTAs do not measure up the standard set by U.S. FTAs, the EPAs nonetheless grant European exporters vastly superior access to scores of emerging markets.

Third, the EU is seeking high-standard FTAs with Korea, India, and a number of Southeast Asian and Latin American countries. These initiatives have attracted considerable interest in the U.S. business community and are worthy of scrutiny.

The EU signed its FTA with Korea in October 2010, with implementation expected in mid-2011. This agreement is similar in reach and ambition to the U.S.-Korea FTA and, indeed, its negotiation was informed by the previously concluded U.S. accord. If the EU-Korea FTA is implemented while the U.S.-Korea FTA remains on hold, U.S. exporters will be put at a marked competitive disadvantage in the Korean market.

The EU has also concluded high-quality FTAs with Colombia, Peru, and Central America in recent months. While the United States has FTAs in force with Peru and Central America, U.S. exporters to Colombia — the second-largest Spanish-speaking country in the world — face a threat from European competitors similar to the dynamic in Korea.

The EU's efforts to negotiate an FTA with India are also striking. In October 2010, however, trade officials from the EU and India indicated they have reached agreement on most of the contentious issues and the general contours of a comprehensive accord have been agreed.

The EU's negotiations with the Association of Southeast Asian Nations (ASEAN) nations and with Mercosur (which groups together Brazil, Argentina, Uruguay, and Paraguay) have proven difficult. However, the EU-Mercosur negotiations were revived this year after a multi-year lull. After the EU-ASEAN bloc-to-bloc FTA negotiations lagged, the EU has this year launched bilateral FTA negotiations with Singapore, Vietnam, and Malaysia as a plan B.

Intriguingly, the EU is also negotiating an FTA with Canada. Given that the North American Free Trade Agreement (NAFTA) is now more than 15 years old, the EU-Canada FTA may result in Canadian market openings superior to those enjoyed by U.S. firms. The EU and Japan recently announced exploratory talks that could lead to negotiations for a full-fledged FTA.

In short, other than China and Australia, there is no major world economy where the EU does not already have or is not currently seeking a reciprocal trade agreement that promises significant advantages for European exporters.

6. **You testified that we must enhance our defense of intellectual property rights. Do you have specific recommendations? If so, what are they?**

New online technologies and high-speed Internet access greatly benefit the global economy and enable consumer access to a growing range of goods and services. However, they have also fueled an explosion in IP theft, which not only poses a risk to consumer health and safety but severely undermines sectors of our economy that have historically provided secure, high-paying jobs. Congress should take action against rogue websites, including by passing legislation similar to S. 3804, the "Combating Online Infringement and Counterfeits Act," to cut off websites dedicated to IP theft from the U.S. market.

As noted in my testimony, it is also important that the U.S. government press for the strongest IP substantive and enforcement provisions in our trade agreements, including in the Trans-Pacific Partnership Agreement (TPP), which the U.S. government is currently negotiating with eight other parties. We hope Members of Congress will express the importance to this administration of including the highest level of IP protections in the TPP, building upon the world class IP provisions found in the three pending free FTAs. This is essential in order to promote the competitiveness of our industries dependent on IP protection for market access.

We also urge Congress to both fully fund federal IP enforcement and promotion activities, including by maintaining a robust level of funding for IP enforcement activities authorized by the PRO-IP Act, and expand government resources dedicated to enforce IP rights, starting with ensuring that the Intellectual Property Enforcement Coordinator (IPEC) has the requisite resources and dedicated staff to successfully carry out her duties as outlined in the PRO-IP Act. It is also important that Congress work with the administration to improve our capabilities to prevent counterfeit goods from entering the U.S., such as by supporting passage this year of legislation similar to S. 1631, the "Customs Facilitation and Trade Enforcement Reauthorization Act of 2009." Finally, we encourage Congress to enact legislation to improve the U.S. Trade Representative's "Special 301" process by enhancing the tools available to the administration to engage more effectively with countries that fail to respect and enforce the rights of American innovators and/or live up to their international obligations.

FRED UPTON, MICHIGAN
CHAIRMAN

HENRY A. WAXMAN, CALIFORNIA
RANKING MEMBER

ONE HUNDRED TWELFTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON ENERGY AND COMMERCE
2125 RAYBURN HOUSE OFFICE BUILDING
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Majority (202) 225–2927
Minority (202) 225–3641

April 20, 2011

Mr. Jack J. Pelton
President, Chairman, and CEO
Cessna Aircraft Company
One Cessna Boulevard
Wichita, KS 67215

Dear Mr. Pelton:

Thank you for appearing before the Subcommittee on Commerce, Manufacturing and Trade on Wednesday, March 16, 2011, to testify at the hearing entitled "Made in America: Increasing Jobs through Exports and Trade."

Pursuant to the Rules of the Committee on Energy and Commerce, the hearing record remains open for 10 business days to permit Members to submit additional questions to witnesses, which are attached. The format of your responses to these questions should be as follows: (1) the name of the Member whose question you are addressing, (2) the complete text of the question you are addressing in italic, and then (3) your answer to that question in plain text.

To facilitate the printing of the hearing record, please e-mail your responses, in Word or PDF format, to carly.mcwilliams@mail.house.gov by the close of business on Wednesday, May 3, 2011.

Thank you again for your time and effort preparing and delivering testimony before the Subcommittee.

Sincerely,

Mary Bono Mack

Mary Bono Mack
Chairman
Subcommittee on Commerce, Manufacturing, and Trade

cc: The Honorable G.K. Butterfield, Ranking Member,
Subcommittee on Commerce, Manufacturing, and Trade

Attachment

The Honorable Bono Mack

1. You testified that the tax incentives adopted at the end of last Congress would be helpful to growth in your industry. Which other policies in your opinion must Congress and the Administration address to help make American businesses competitive with foreign firms?

2. You referenced trade agreements addressing the reciprocity of FAA certification in foreign countries in lieu of potentially redundant foreign safety reviews. Are there other benefits that your industry, or American businesses at-large, could experience through FTAs?

3. You testified export controls need to be updated to recognize technological advances and foreign availability of product and tools. How do the regulations affect your business or restrict your ability to export? Do you have any recommendations on how to address this problem?

1. A free-trade orientation should guide the Administration's and the Congress's policies. The U.S. should lead the way in opening markets. For reasons that I illustrated in my prepared testimony, this is particularly important for industries such as general aviation and aerospace in general, which are world leaders in innovation and competitiveness. This means not only expanding the network of free trade agreements to as many parts of the world as possible, but also urging our trading partners, particularly in important markets like China and India to modify some of their fiscal and other policies so that they are not barriers or disincentives to the importation of U.S. aviation products. For example, both China and India maintain excessively high combined import duties and value-added-tax rates on the importation of general aviation airplanes and equipment, but not on commercial aviation products. India maintains outdated currency controls that limit the ability of potential customers there to place adequate, industry-standard dollar-denominated deposits when a new airplane is ordered. These practices and policies, often remnants of old policies and not necessarily directed at aviation, stifle the sale of U.S. aviation products. Since these policies don't violate WTO commitments, and given the breadth of our trade agenda with China and India, issues such as these tend to get overlooked in bilateral discussions. They shouldn't be.
2. As I said in my testimony, while FTAs are helpful to the overall trading relationship between the U.S. and another country, just as important for aviation are the aviation safety bilateral agreements that are negotiated between the FAA and the aviation authority of another country. These agreements, if properly implemented, offer great benefits for streamlining the certification process and reducing unnecessary regulatory burdens. It is our hope that the U.S. government will continue to be a leader in promoting these agreements.
3. In my testimony I noted some of the welcome reforms of the export control system that the Obama Administration has pledged to undertake. For the first time in many years, there appears to be movement forward on these reforms. Many of them are of the "low-hanging fruit" variety that can be implemented administratively; others may require legislation. I would only urge that this effort not lose steam.

Answers of Daniel J. Ikenson
Associate Director
Herbert A. Stiefel Center for Trade Policy Studies
Cato Institute
to Questions from the Honorable Mary Bono Mack

1. **You did not mention any of the programs administered by the Commerce Department's International Trade Administration. Do you have any views about the effectiveness of these programs? Do you have any recommendations for improving them?**

The Commerce Department is the perfect metaphor for big government run amok. Working at cross purposes under one figurative roof, the 44,000 employees of the Commerce Department simultaneously promote and scuttle trade. The four sub-agencies within the International Trade Administration embody this policy dissonance. According to their descriptions on the ITA website:

U.S. and Foreign Commercial Service — Promotes U.S. exports, particularly by small and medium-sized enterprises, and provides commercial diplomacy support for U.S. business interests around the world.

Manufacturing and Services — Strengthens U.S. competitiveness abroad by helping shape industry-specific trade policy.

Market Access and Compliance — Assists U.S. companies and helps create trade opportunities through the removal of market access barriers.

Import Administration — Enforces U.S. trade laws and agreements to prevent unfairly traded imports and to safeguard the competitive strength of U.S. businesses.

Ostensibly, the first three "business units" (as they are described by the ITA) are committed to removing foreign barriers and opening foreign markets for U.S. exporters, while the last unit is devoted to restricting imports that meet the expansive, ever-changing, and indefensible definition of unfair trade. What should be obvious to policymakers is that aggressive enforcement of U.S. trade remedies laws (the antidumping law and the countervailing duty law) by Import Administration unquestionably frustrates the goals of the first three units, by creating ill-will among our trade partners, inspiring retaliation, and raising the cost of production for U.S. producers who rely on imported intermediate goods for their own manufacturing and value-added processes.

In his January 2010 State of the Union address, President Obama announced a goal of doubling U.S. exports in five years. That goal was soon enshrined as the "National Export Initiative," which has since become the centerpiece of the administration's trade policy agenda (under the auspices of the International Trade Administration).

In September 2010, the president's newly minted Export Promotion Cabinet published a 68-page plan devoted to the goal of seeing U.S. exports of goods and services reach $3.14 trillion by the end of 2014. Some of the components of that plan—such as streamlining U.S. export control procedures and concluding and signing trade agreements—are laudable ideas. But other aspects of the NEI are troubling.

One incomprehensible oversight of the NEI is its failure to identify the U.S. antidumping regime as a significant impediment to U.S. exports. Although the antidumping law is purportedly a tool that protects U.S. producers from "unfair" trade and ensures a "level playing field," the fact is that the law's outdated assumptions conspire with its overzealous application to erode the competitiveness of U.S. firms.

A substantial majority of U.S. antidumping measures restricts imports of raw materials and other industrial inputs consumed by downstream U.S. producers in their own production processes. Those restrictions raise the costs of production for the downstream firms, weakening their capacity to compete with foreign producers in the United States and abroad.

The Export Promotion Cabinet seems to have overlooked the fact that most of those import-consuming, downstream producers—those domestic victims of the U.S. antidumping law—are also struggling U.S. exporters. Antidumping duties on magnesium, polyvinyl chloride, and hot-rolled steel, for example, may please upstream, petitioning domestic producers, who can subsequently raise their prices and reap greater profits. But those same "protective" duties are extremely costly to U.S. producers of auto parts, paint, and appliances, who require those inputs for their own manufacturing processes. Those downstream companies are more likely to export and create new jobs than are the firms that turn to the antidumping law to restrict trade.

During the decade from January 2000 through December 2009, the United States imposed 164 antidumping measures on a variety of products from dozens of countries. A total of 130 of those 164 measures restricted (and in most cases, still restrict) imports of intermediate goods and raw materials used by downstream U.S. producers in the production of their final products. In all of those cases, trade-restricting antidumping measures were imposed without any of the downstream companies first having been afforded opportunities to demonstrate the likely adverse impact on their own business operations. This is by design. The antidumping statute forbids the administering authorities from considering the impact of prospective duties on consuming industries—or on the economy more broadly—when weighing whether or not to impose duties.

Higher input prices are only the first assault on these downstream firms. The next wave usually takes the form of stiffer competition from firms in countries where there are no antidumping duties on the critical input. As a result, the foreign competition often operates at a cost advantage in the United States and in other markets that enables it to sell profitably at lower prices than U.S. firms can charge.

Accordingly, the profits of downstream firms are squeezed by both higher costs, due to import restrictions, and lower revenues, due to lost sales. As a consequence, countless U.S. producers in downstream industries—including firms that were once thriving in the United States and foreign markets—have suffered severe losses, contraction, and bankruptcy.

As a final indignity, many U.S. exporters suffer the wrath of foreign antidumping restrictions and other forms of protectionism that are often the result of persistent U.S. opposition to antidumping reform, as well as outright retribution for specific U.S. antidumping actions. Among the victims are U.S. exporters to China of automobiles, fiber optic cable, chicken, grain, and paper. In countless ways, the antidumping status quo subverts the goals of the NEI and is an albatross around the neck of the U.S. economy.

To bestow real and enduring benefits upon the U.S. economy, the NEI should include the objective of reforming the U.S. antidumping law to give legal standing to manufacturers and workers in consuming industries; require the administering authorities to conduct an analysis of the economic impact of prospective antidumping duties and to deny imposition if the costs exceed a certain threshold; and require that any antidumping duties imposed be remedial, not punitive.

For greater detail about the National Export Initiative, U.S. competitiveness, and how the antidumping law undermines both, see Daniel Ikenson, "*Economic Self-Flagellation: How U.S. Antidumping Policy Subverts the National Export Initiative*," Cato Trade Policy Analysis no. 46, May 31, 2011, http://www.cato.org/pub_display.php?pub_id=13134.

2. **You testified that the regulatory environment is stifling and that compliance costs are eating into the bottom lines of more and more companies. Please identify the most problematic regulations impeding U.S. producers and exporters and describe any suggestions you may have for reform.**

Over the past couple of decades, a division of labor on a truly global scale has emerged, presenting opportunities for specialization, collaboration, and exchange only previously imagined in theory. Falling trade and investment barriers, revolutions in communications and transportation, the opening of China to the West, the collapse of communism, and the disintegration of Cold War political barriers have spawned a highly integrated global economy with vast potential to produce greater wealth and higher living standards. The dramatic reduction in transportation and communication costs combined with widespread liberalization of trade, finance, and political barriers are all accomplices in what has been called "the death of distance."

Under the new paradigm, the factory floor is no longer contained within four walls and one roof. Instead, the factory floor spans the globe through a continuum of production and supply chains, allowing lead firms to optimize investment and output decisions by matching production, assembly, and other functions to the locations best suited to those activities. In the 21st century, it is inaccurate to characterize international trade as a competition between "us" and "them." Because of foreign direct investment, joint ventures, and other equity-sharing arrangements, quite often "we" are "they" and "they" are "we." And as a result of the proliferation of disaggregated, transnational production and supply chains, "we" and "they" often collaborate in the same endeavor. Under the new paradigm, workers in developed and emerging countries are more likely to be coworkers than competitors. Today's global economic competition is less likely to feature "our" producers against "their" producers and more likely to feature entities that defy national identification because they are truly international in their operations, creating products and services from value-added activities in multiple countries. There is competition between supply chains, but success first demands cooperation and collaboration within supply chains (i.e., cooperation and collaboration between some of "us" and some of "them").

This new commercial reality demands policies that are welcoming of imports and foreign investment, and that minimize regulations or administrative frictions that are based on misconceptions about some vague or ill-defined "national interest." The driving force behind innovation and opportunity in this new era is the reduction and elimination of artificial barriers, both political and economic. As those barriers have diminished, opportunities for new combinations of labor, investment, and human capital have emerged in defiance of what were once formidable obstacles to wealth creation. And those changes have made it incumbent upon governments to adopt policies that attract—and not repel—value-added and job creating businesses because, nowadays, businesses have choices as to where to locate and how to produce.

Many can choose to produce and operate in other countries, where the economic environment may be more favorable. Governments are now competing with each other to attract the financial, physical, and human capital necessary to nourish high value-added, innovation-driven, 21st century economies. Gratuitously punitive anti-business policies will only chase away the companies that the president exhorts to invest and hire.

According to a survey of 13,000 business executives worldwide, conducted by the World Economic Forum, 52 countries have less burdensome regulations than the United States. Add to that the fact that the United States has the highest corporate tax rate among all OECD countries and it becomes less mysterious why U.S. businesses shift more operations abroad.

The problem with our economy, the problem in the labor market, the reason businesses aren't investing have everything to do with the problems implied above. The rule of law is no longer bedrock, the business and political climates remain uncertain, asset expropriation (through torts and bankruptcy) is a real threat, the workforce doesn't have the skills required by producers in an economy at the technological fore, the regulatory environment is stifling, compliance costs are eating into the bottom lines of more and more companies, the corporate tax rate is highest among OECD countries and keeps resources offshore, the government treats our innovators as adversaries, physical infrastructure is in disrepair, and—while the smarter governments around the world are wooing investment in R&D facilities, high-end manufacturing plants, and educated human beings with proper incentives—U.S. policies treat those investors and skilled immigrants with contempt or indifference. And to add insult to injury, rather than show any interest in trying to fix these problems so that the economy can benefit from what should be American advantages, this administration, egged on by know-it-all opinion leaders, thinks it makes more sense to follow in the footstep of the Chinese and adopt top-down industrial policy.

Governments are competing for investment and talent, which both tend to flow to jurisdictions where the rule of law is clear and abided; where there is greater certainty to the business and political climate; where the specter of asset expropriation is negligible; where physical and administrative infrastructure is in good shape; where the local work force is productive; where there are limited physical, political, and administrative frictions.

This global competition in policy is a positive development. But we are kidding ourselves if we think that we don't have to compete and earn our share with good policies. The decisions we make now with respect to our policies on immigration, education, energy, trade, entitlements, taxes, and the role of government in managing the economy will determine the health, competitiveness, and relative significance of the U.S. economy in the decades ahead.

The president is beginning to get it – though grudgingly. He acknowledges the burdens of excessive and superfluous regulations and bureaucracy. The president has hinted that he would like to see the corporate tax rate lowered. He knows that businesses have options to invest, produce, and hire abroad—and that oftentimes U.S. policy chases them there. But, so far, rather than push policies to encourage domestic investment, production, and hiring, the president has done the opposite, while demonizing businesses that follow the incentives to go abroad.

After ObamaCare, Dodd-Frank, taxpayer bailouts, unorthodox and legally-questionable bankruptcy procedures, subsidies for select industries, Buy American and other regulations governing how and with whom "stimulus" dollars could be spent, and the administration's tightening embrace of industrial policy, businesses want a more quiet, less intrusive, less antagonistic, predictable policy environment before they will feel comfortable playing the role Obama wants them to play.

Until that happens, nobody should expect torrents of investment and hiring from the business community.

3. You testified that the government treats our innovators as adversaries. What do you mean by this?

Success breeds contempt. Or, perhaps, where there is success there must be greater oversight and regulation. These seem to be mantras of government over the years, which has throw obstacles in the paths of companies like Microsoft, Google, Facebook, and

Twitter. (See Vivek Wadhwa, "Google, Twitter and the Best Regulator," Washington Post, p. A13, July 8, 2011).

The bottom line is that companies that innovate and create jobs, value-added, and the seeds of future innovation should be given the greatest possible respect (as they are in most other countries, where governments do their utmost to welcome and reward their investment). The greatest possible respect would be for government to butt out and allow the fluid factors that permeate and animate these industries to flow unabated.

4. Which, if any, government policies impede innovation, and what, if any, reforms would you suggest to promote innovation in U.S. industries?

The United States is blessed with many advantages—respect for private property, rule of law, excellent research institutions, sophisticated and niche capital markets, limited risk of asset expropriation, etc.—that helps maintain its status at the world's innovation hub. But we have to some extent squandered those advantages through neglect and abuse (see response to Question 2, above). Today, a confluence of failing policies in the United States is conspiring to undermine U.S. innovation and competitiveness.

First, our education system is failing to produce home-grown human talent to invent, perfect, commercialize, and administer the kinds of technology that is needed to ensure that our economy continues to support high living standards. Meanwhile, our immigration policies are hostile toward and unwelcoming of foreign-born talent that possesses or is seeking to obtain those needed skills. The dearth of high-skilled workers in the United States is rapidly becoming a competitive disadvantage, as business investment is attracted to locales which offer the promise of the greatest return.

Second, U.S. tax policy is punitive toward the very entities that policymakers expect to invest, innovate, and hire. If we want companies to underwrite innovation, they should be incentived to do so. But the R&D tax credit made available to businesses has been anything but consistent over the years, fluctuating at different (but relatively unrewarding) rates and applying under circumstances that vary from year to year. Government can play a role by limiting the uncertainty that it currently imposes upon business. One way to do that would be establish a 5-year or longer set tax credit for research and development expenditures.

Furthermore, removing the disincentives in the tax code (reducing the corporate rate and eliminating double-taxation) that dissuade U.S. multinationals from repatriating profits earned on foreign sales and ceasing the vilification of these innovation and job creators when they choose to invest abroad would also go a long way toward promoting innovation in the United States.

Finally, keeping government intervention to a minimum is important to resuscitating and cultivating a climate of innovation and entrepreneurship. When policymakers are busy creating new statutes and new regulations, businesses tend to refocus their energies from productive to political endeavors. That, of course, detracts from innovation, investment, and job creation, as we are witnessing in the present.

5. **You testified about the risks of subsidizing certain industries, such as green technology. Please elaborate on the downsides and economic costs of governments attempting to pick winners and losers in this manner.**

The explicit policy choice to subsidize any given industry is an act of picking winners and losers. It is an act that trumps or, at the very least, redirects competitive market processes. It subordinates the real information conveyed in millions of daily transaction decisions to the estimates of policymakers who, even if acting benevolently or to advance their conceptions of the "greater good," cannot possibly possess adequate knowledge about the future or information about the present to avoid causing significant gaps between supply and demand in labor, goods, and financial markets. For example, is it likely that advocates of the U.S. ethanol program failed to consider the effect on food prices of diverting millions of acres of corn to fuel production? To take subsidization of chosen industries or industrial policy to its fullest manifestation, the collapse of the Soviet Union is testament to the lack of sustainability of central planning.

With over $100 billion in direct subsidies and tax credits already devoted to green technology, President Obama is convinced that America's economic future depends on the ability of U.S. firms to compete and succeed in the solar panel, wind harnessing, and lithium ion battery markets. Concerning those industries, the president said: "Countries like China are moving even faster... I'm not going to settle for a situation where the United States comes in second place or third place or fourth place in what will be the most important economic engine of the future."

With all due respect, how does the president know that those will be the most important economic engines of the future? By placing bets on particular industries, the administration is overriding a selective, evolutionary process that has undergirded the world's most successful innovation machine, while reducing the chances of worthy ideas, firms, and industries leading the next commercial wave. Did President Obama's predecessors anticipate the arrival of Steve Jobs, Bill Gates, or Marc Zuckerberg and the revolutionary products and services they delivered? Did Washington bureaucrats foresee the advent of specific life-extending medicines and devices, like digestible, pill-sized cameras?

Had those proposing industrial policy in response to a rising Japan in the 1980s and early 1990s prevailed, much of the technology and medical advances taken for granted today would have never come to fruition.

6. Industry has repeatedly identified significant losses attributed to intellectual property theft. What is the best way for the government to address this problem?

Intellectual property (IP) theft is no doubt an expensive problem for U.S. businesses—at home, but more so in foreign countries. The U.S. copyright industries estimate losses from piracy in China in the music recording and software industries alone to have been $3.5 billion in 2008. The U.S. government has pressed China on this issue for many years, and in 2009 a favorable ruling from a WTO dispute panel affirmed U.S. complaints about the inadequacy of Chinese IP laws and enforcement of those laws. China subsequently agreed to bring the measures at issue into compliance by March 2010. But intellectual property piracy is likely to continue to be a problem in China—even after legal reforms and ramped-up enforcement techniques are introduced. The problem cannot be solved—only managed.

The U.S. government has a role to play to the extent that there are treaties in force that require government-to-government correspondence to monitor and enforce. The WTO Agreement on Trade-Related Aspects of Intellectual Property (TRIPS Agreement) obligates China to uphold certain standards of coverage and enforcement. However, U.S. businesses will have to explore alternatives that dissuade intellectual property theft. Like other costs, piracy is a cost of doing business, and it is incumbent upon firms in affected industries to minimize their business costs. If the legal framework is insufficient for deterring theft, business needs to consider alternatives, such as educating Chinese businesses about the importance of intellectual property protection or building deterrence into contracts. Imposing U.S. sanctions or some other penalties on China for its failure to significantly curtail intellectual property piracy would burden other U.S. businesses and consumers without introducing incentives to deter piracy that business cannot do itself. We should seek to avoid socializing the enforcement costs when the benefits of IP protection accrue primarily to the IP holder. Bilateral tensions over intellectual property do not constitute grounds for a change in U.S. policy tack.

Capstone Turbine Corporation
www.capstoneturbine.com

The Honorable Mary Bono Mack
Chair, Subcommittee on Commerce,
Manufacturing and Trade
U.S. House of Representatives
104 Cannon House Office Bldg
Washington, D.C. 20515

May 2, 2011

Dear Chairwoman Bono Mack:

Capstone Turbine respectfully submits the following responses to your questions from the "Made in America: Increasing Jobs Through Exports and Trade" hearing.

Thank you for the opportunity to testify.

Sincerely,

James Crouse

James Crouse
Executive Vice President, Sales and Marketing

Cc: The Honorable G.K. Butterfield, Ranking Member

Chairwoman Mary Bono Mack:

1. You testified that Congress should finalize the pending FTAs to open foreign markets to your products. How specifically will your company, and those like yours, benefit from such trade agreements?

Free trade agreements with developing countries are of particular importance to Capstone Turbine because, in general, customers in these markets are more price sensitive than those in wealthier countries. Therefore any additional costs such as tariffs can cause a deal to fail. This is a particular concern for advanced, high-technology products such as microturbines, which can be more expensive than competing products from overseas that are cheaper because they use less-advanced technology and cheaper manufacturing labor.

A microturbine is advanced power generation technology that competes with traditional reciprocating engine generators. While over ninety five percent of the global microturbine supply is produced in the United States, a large share of reciprocating engines are made overseas. Because many foreign governments wish to protect their native power generation products, microturbines can face high tariffs. Since emerging market customers are price sensitive to begin with, added costs from import tariffs can further imperil deals. Customers are willing to pay a premium for high quality technology such as microturbines, but tariffs make premium products even more costly.

Emerging markets are of particular importance to Capstone Turbine due to their strong growth and corresponding need for increased power generation. These factors provide an opportunity for American firms that manufacture innovative and clean energy products, and their deployment has environmental value that is both local (decreased pollution) and global (decreased greenhouse gas emissions).

2. You testified specifically about the negative impact of tariffs on your products abroad. Can you quantify for us how much these tariffs amount to on your products?

In our experience, tariffs on microturbines range from five to thirty-five percent depending on the country.

3. You testified that the high first cost of your microturbines has made it difficult to sell them in the United States. How much does the power generated by your microturbines cost compared to power generated using other sources of energy? Do you see the cost disparity narrowing in the near future?

Grid power is the primary competitor of any distributed generation system since the customer can opt to do nothing and continue to rely on electricity from the utility company. Because a microturbine provides both electricity and thermal energy simultaneously, total system efficiency can exceed eighty percent. Therefore the microturbine's cost to produce the electricity and thermal can be much lower than the cost of grid power and boiler heat. Whether or not a microturbine is an economically viable option depends on the cost of fuel and the cost of grid power.

However, a user such as a facility owner would have to purchase and install the microturbine in order to realize these cost savings. If the facility owner decides to continue to do "business as usual," their energy costs could be higher but no upfront investment is made. The upfront investment can be a significant barrier to deploying projects especially given the current economic climate and tight credit market.

A microturbine is less expensive than other types of distributed generation such as solar, wind or fuel cells. However, these technologies receive generous incentives and subsidies. Microturbines also compete with traditional reciprocating engines which are less expensive given the much larger production volumes. Reciprocating engines produce much higher emissions than microturbines and cost more to maintain over the lifecycle of the product. In the United States there is no economic benefit associated with the low emissions of microturbines. Many customers opt for reciprocating engines due to their lower first cost.

Like other newer technologies, the cost of microturbines can go down as production volumes increase. As Capstone Turbine is able to procure components and materials in higher volumes, our company will be able to realize economies of scale that we can pass to the customer.

4. You testified that the key to increasing exports of products such as your microturbines is to set long-term energy policy and create a level playing field with other energy sources. How would you suggest policymakers create a level playing field with other energy sources? Would making energy significantly more expensive result in net increases in exports and jobs in the United States?

Currently other types of clean energy such as solar, wind, geothermal and fuel cells receive a thirty percent investment tax credit. Microturbines receive a ten percent ITC that is capped at $200 per kilowatt, which results in a real credit of approximately six to seven percent. Microturbines provide the businesses that adopt them with reliable baseload clean power. The social benefits provided are cleaner air, lower greenhouse gas emissions, a more stable grid, and increased use of homegrown fuels rather than foreign oil. Due to the many economic, social and environmental benefits of microturbines, we believe that this technology should be on an equal playing field with other clean energy sources. Policymakers should give parity to this American energy technology and provide a thirty percent tax credit so that more American businesses can take advantage of microturbine technology.

5. You testified that Capstone has benefited from trade missions overseas, and that ITA's Foreign Commercial Service has been effective in setting up meetings with potential distributors and customers. Do you know if ITA's efforts have actually resulted in more sales of your microturbines? If so, how many sales do you attribute to ITA's assistance?

ITA trade missions have been a contributing factor to later sales for Capstone Turbine overseas. For example, successive trade missions to China helped the company break into that market by locating distribution partners and gaining access to policymakers. In our last fiscal year, Capstone Turbine sold orders worth $3.5 million to Chinese customers, and we hope to increase that number this year. Another recent trade mission to North Africa led to the company's first sale to the region in early 2011. ITA trade missions allow the company to break into new markets much more efficiently than it would on its own, spending less company resources by leveraging the U.S. government's access and market intelligence.